Who's Buying Los Angeles

How Speculative Finance Keeps Houses Vacant and People Unhoused

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About the Organizations:

Strategic Actions for a Just Economy
SAJE is a 501c3 non-profit organization in South Los Angeles. SAJE builds community power and leadership for economic justice. Since 1996 SAJE has been a force for economic justice in our community by focusing on tenant rights, healthy housing, and equitable development. SAJE has taken many notorious slumlords to court, has established a land trust, and has helped implement innovative popular education programs. SAJE runs a regular tenant clinic, helps connect local residents to jobs, and fights for community benefits from future development through private agreements and public policies. SAJE believes that the fate of city neighborhoods should be decided by those who dwell there, and convenes with other organizations to ensure this occurs in a manner that is fair, replicable, and sustainable.

Alliance of Californians for Community Empowerment
The Alliance of Californians for Community Empowerment (ACCE) Action is a grassroots, member-led, statewide community organization working with more than 15,000 members across California. ACCE is dedicated to raising the voices of everyday Californians, neighborhood by neighborhood, to fight for the policies and programs we need to improve our communities and create a brighter future.

Executive Summary

Foreword

Nobody who has observed the unprecedented housing crisis in Los Angeles should be surprised to read the contents of this report. There is no justification for a housing system that fails to house tens of thousands of the city's residents, and leaves hundreds of thousands more struggling under the weight of astronomical rents. For some, the housing market is working exactly as intended, delivering gargantuan profits to a privileged class of investors who have bent the system to their interests. Rampant speculation has resulted in a system that works in the interest of this select class, to the detriment of the many, along lines of race and class.

Some of the unjust effects that this system produces are catalogued in this report. With more than 36,000 unhoused residents, Los Angeles simultaneously has over 41,000 units sitting vacant and withheld from the housing market, only to the benefit of speculative owners. Thousands of luxury condominiums across the city are empty, owned as second homes or pure investments, with more corporate owners than full time residents. In a time when the city should be using all available units and space to house people, over 22 square miles of vacant lots are owned and kept vacant by corporate entities. The power of finance, that has brought 41% of the city's residential property under its control, is also manifest in the ability of speculative developers to remake the neighborhoods to fit their own vision, a phenomenon that is reflected nowhere more saliently than in Downtown Los Angeles, where nearly all of the housing under construction is far out of reach of those that live there.

Finally, the destruction of existing rent-stabilized housing leaves tenants even more vulnerable, as landlords exploit legal loopholes to drive them out of their buildings. It is clear that something needs to be done to curb the power that speculators hold in Los Angeles, and this report suggests a place to start.

Key Findings

Thousands of units are held off the market in Los Angeles
While normal vacancy occurs when units are waiting for new residents to move in, tens of thousands of units in Los Angeles are being speculatively withheld from the housing system. Over 41,000 units are held in a state of vacancy that is problematic, more than one for every unhoused person in Los Angeles. This is a real issue with significant implications for addressing the housing crisis. Many of these units are intentionally kept vacant by owners seeking to profit by speculating on the increase in property value, only returning the properties to the market when rents are high enough for their liking.

Property in Los Angeles is increasingly financialized
Los Angeles is increasingly a city that is not owned by people, but by corporate entities of all kinds. 41% of all residential property in the city is directly owned by corporate entities. The same is true for over 22 square miles of vacant lots, a massive amount of land going undeveloped to pad the wallets of corporations and a small class of investors. With only a tiny fraction of people having investments of any kind, this massive concentration of ownership represents a speculative property market set up to make a

profit for the few, rather than to the benefit of all. Worse, the lack of financial disclosure requirements that apply to corporate property owners, and the ease of creating shell companies, means that it is impossible to really know who benefits from buying up Los Angeles.

We are building homes, but only for the rich

Even amid an unprecedented shortage of housing for the people that need it most, Los Angeles is building plenty of homes. Thousands of new units are being produced, but many are only accessible to the wealthiest. Bolstered by a false logic that any construction helps address the crisis, policymakers have greenlit massive luxury projects that sit mainly vacant, while not nearly enough affordable, let alone deeply affordable, housing has been produced. Luxury development far out of reach of a neighborhood's residents accelerates gentrification and displacement and represents the power of developers to speculate on the future of a neighborhood, discarding those who live there for a richer class who one day might.

Los Angeles's luxury condo towers are warehouses for wealth

Los Angeles is home to thousands of units of high-end condominiums, which serve primarily as wealth storage units for the richest investors in the world. We surveyed 25 of the city's most exclusive residential towers and found that more units in these buildings (46%) were home to corporate entities than were the primary residence of real people (29%). Nearly 74% or a total of 2,399 of these units were effectively vacant, a tragedy in a city where tens of thousands are unhoused.

Speculation removes thousands of units a year from the market and there is a desperate need for housing that is affordable and that is deeply affordable

Though luxury construction is booming, construction of affordable housing is not. A persistent lack of deeply affordable housing construction has led to a shortfall of more than 500,000 affordable units in Los Angeles. Rent control keeps thousands of families in their homes by preventing them from being forced out due to rent hikes, but unfortunately loopholes allow prevent many units from being protected by rent control and allow landlords of rent controlled units to raise rents as high as they want when the unit becomes vacant – a provision called vacancy decontrol. Additionally, there is a lack of legal representation for the vast majority of tenants that undercuts enforcement. Speculative landlords exploit the rent control system by forcing tenants out through illegal means to benefit from vacancy decontrol. In addition, more units of less expensive market rate housing are being removed from the market than are being produced in some neighborhoods, and thousands of units of rent stabilized housing are removed from the housing supply every year through the use of the Ellis Act a legal tool to mass evict tenants favored by speculators.

Cities across North America are turning to vacancy taxes to combat speculation

Many cities across North America, especially those with similar housing problems as Los Angeles, have been turning to vacancy tax policies to combat speculation and raise revenue for the construction of new affordable housing. Inspired by community groups mobilizing for housing justice, many cities have successfully passed and implemented these policies (including some in California) and these efforts should serve as a model in Los Angeles.

A vacancy tax can be done here
A penalty for keeping units vacant is not only desperately needed amid an unprecedented housing crisis, but achievable as well within the confines of California law. Taking other cities' policies as examples and diving into the legal context surrounding taxation, we chart a course for how policymakers in Los Angeles can craft and implement a workable vacancy penalty policy.

Los Angeles needs to better understand vacancy
Vacancy is an extremely complex issue and good data about vacancy is hard to find. For years, policymakers in Los Angeles relied on data from the Department of Water and Power's meters to get a clear picture of vacancy in the city, but this option no longer exists. Given the context of an ongoing housing crisis, and the many ways in which vacancy can have deleterious effects on a city's housing system, understanding what vacancy in Los Angeles looks like is incredibly important. The structural factors that undergird vacancy are not all benign, and good data is paramount to address these issues at their cause.

Recommendations

Vacancy Tax
Adopt a comprehensive Vacant Homes Penalty measure in the City of Los Angeles.

Apply the penalty citywide.

Apply the penalty to rental dwelling unit vacancies, ownership dwelling unit vacancies, and commercial vacancies.

Apply the penalty to currently undeveloped vacant properties that are zoned to allow housing and have had rental housing on site in the previous ten years.

Apply the penalty to dwelling units that are unoccupied by residents for more than 90 days out of the year.

Create a rebuttable presumption that units are vacant and subject to the penalty using DWP metering information and other best available data.

Create a progressive structure that penalizes speculative vacancies and maximizes revenue for community-centered housing justice programs.

Include reasonable exemptions.
Allocate the penalty revenue exclusively to community-serving uses that advance housing justice.

Include registry, audit, and enforcement procedures, and ensure appropriate data management practices.

Ensure comprehensive community oversight of program implementation.

Supplementary Policies

Municipal Disclosure Requirements to make it clear who owns Los Angeles

Public Access to Accurate Data on Vacancy so communities and policymakers can work to make a housing system that actually houses people

A Prohibition on Ellis Act Condominium Conversions and Demolitions of Rent Stabilized Units until appropriate vacancy monitoring procedures are in place

A Flipping Tax to disincentivize speculative behavior where buyers turn buildings over for profit rather than putting them to work housing people

A Real Estate Transfer Tax to limit speculation on properties and make the tax system less regressive

An Out-of-State Transaction Tax targeting the deep pocketed corporate entities that extract value from Los Angeles

Other means to use vacant units to house the unhoused recognizing the gravity of the current crisis and need for action

Methodology

Vacancy is a complex phenomenon and multiple sources informed our analysis. The difficulty of obtaining reliable data on vacancy of any kind, especially in Los Angeles, posed several problems that guided the choices we made for source data. There are many potential approaches to collecting information on vacancy– though they all have shortcomings.

We (the empirical portions of this report were carried out by SAJE with support from ACCE) collected vacancy information citywide, on a census tract scale, from the U.S. Census Bureau's 2017 American Communities Survey (ACS) 5-year estimates through NHGIS IPUMS,[1] the most recent and reliable data set available to us. The same data set provided us with information about rents, housing cost burdens, and other useful demographic and socioeconomic indicators which we used in our analysis. We aggregated this information into neighborhood level data, drawing our definition of neighborhoods from the *Los Angeles Times* neighborhood maps, the results of which are recorded in the table "Neighborhood Vacancy Characteristics."[2] ACS data, though imperfect, are regarded as the standard and widely used by

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[1] The census tract data was aggregated to the neighborhood and citywide levels using open-source GIS software to provide the analysis at those scales, similarly a geoprocessing operation was used to determine whether tracts were inside of the City of Los Angeles according to the boundaries defined by the City of Los Angeles, as available on the county's open geodata portal, minor potential differences may arise between the figures here and citywide figures calculated elsewhere may exist because of this treatment of the data.

[2] LA Times Data Desk. "Mapping LA Neighborhoods" *The Los Angeles Times* http://maps.latimes.com/neighborhoods/

researchers.[3] Theoretically, more accurate data based upon metering information is available from the Department of Water and Power (DWP), which samples every single residence in the city daily. These data, however, have been inaccessible to policymakers and the public.[4] In calculating their own vacancy rates, the Department of City Planning is currently using the same ACS 2017 5-year data used in this report and, according to a 2017 report filed with the housing committee, the Department considers this data set the best available, aside from the DWP data.[5]

For individual buildings, we used several different sources. We identified luxury condominiums by browsing websites listing them for sale (e.g., highrises.com) and then used property records from the Los Angeles County Assessor to determine their corporate ownership and vacancy. We identified corporate ownership by querying ownership data as recorded in the Assessor rolls to find properties owned directly by a variety of entity types (Trust, Limited, Corp, Inc, Holding, Co, LP, Bank, Investments, Fund, Properties, and Real Estate, and common variations of these, are the search terms used in the query). For vacant units we use a definition of "effective vacancy" which comprises units that are not receiving homeownership tax exemptions as recorded by the Assessor. This indicates that the units are either second homes or owned as pure investments. For apartments, we used data from the real estate information service Co-Star which contained the vacancy rates for each of the buildings profiled, as well as the other data integrated into the tables. [6]

How Speculative Finance Keeps Houses Vacant and People Unhoused

Some vacancy is harmless or "normal," as when a property is vacant because the unit is on the market, but between renters. In Los Angeles, however, problematic vacancy keeps viable housing off the market while thousands sleep on the streets every night.

Part 1 of this report documents what the U.S. Census Bureau calls "vacant units held off the market," which are "units held for occasional use, temporarily occupied by persons with usual residence elsewhere, and vacant for other reasons."[7] These "Non-market vacancies" encompass two subcategories: (1) "Units occupied by persons with usual residence elsewhere,"[8] which we will call "second homes," and (2) "Other vacant" units.[9] Both of these types of vacancy can be problematic, when units lie abandoned, or when owners intentionally withhold housing units from the market.

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[3] In calculating vacancy, the Census Bureau collects data monthly, ultimately sampling 3% of units, and then uses statistical models to estimate overall vacancy. "Vacancies Fact Sheet." US Census Bureau. https://www.census.gov/housing/vacanciesfactsheet.html

[4] City of Los Angeles, Department of City Planning. Report. *Los Angeles City Council*, 21 September 2017, https://cityclerk.lacity.org/lacityclerkconnect/index.cfm?fa=ccfi.viewrecord&cfnumber=17-0480

[5] Ibid, appendix item 3

[6] Co-Star DTLA Muti-Family Submarket Report, April 2019, Co-Star Underwriting Report Dated Spring 2019

[7] "Definitions and Explanation" *United States Census Bureau.* https://www.census.gov/housing/hvs/definitions.pdf

[8] ibid.

[9] Ibid.

Part I also highlights “speculative vacancy,” which occurs when profit-seeking owners—often corporate entities—keep their units vacant until rent rises to a high threshold. Speculative vacancy occurs in both “problematic vacancy” (wherein owners withhold units from the market entirely) and in vacancies that the Census Bureau would deem “normal.” For example, property owners, betting on increasing rents in an area, sometimes place their units on the rental market at prices that are high for the neighborhood. Because the unit is on the market and between renters, it is “normal” according to the Census Bureau, but the unusually high rent keeps the unit vacant, harming housing-insecure Angelenos.

Part II demonstrates what problematic vacancy looks like in Los Angeles by providing original data on s the extremely high vacancy rates in luxury apartments and condominiums across the city.

Part III outlines how the financialization of the housing sector has led to vast corporate entity ownership of residential property in Los Angeles. This ownership of property in order to generate profits for investors contributes directly to speculative vacancy. Moreover, identifying the individuals who ultimately benefit from corporate investment into land and housing is extremely difficult.

Part IV argues that the speculative housing market results in the overproduction (and consequently high vacancy) of luxury housing, at the same time as existing affordable units are lost and new affordable units are underproduced. This process is driven by eviction and is a root cause of increased houselessness.

I. Vacancy Is a Structural Feature of the Housing Market

What Is Vacancy?

Vacancy is much more complicated than empty lots or homes without people living in them. Vacancy occurs in a variety of different forms and for a variety of different reasons. Vacancy can be normal, or it can be problematic. Vacancy rates can be too high, too low, or both simultaneously depending on the particular situation of a neighborhood and the characteristics of its housing system. Problematic vacancy manifests differently in each of these various contexts. Some cities, in the Midwestern United States for example, struggle with “hyper-vacancy” where many properties are abandoned due to the precipitous decline in residents that these cities have experienced due to finance driven offshoring and deindustrialization.[10] Other cities, like San Francisco, San Jose, and Denver, have extremely low vacancy rates which can make it difficult for families to find housing in these places, especially affordable housing.[11] Vacancy in Los Angeles, with its large area and socioeconomically diverse and differentiated neighborhoods, is even more complex.

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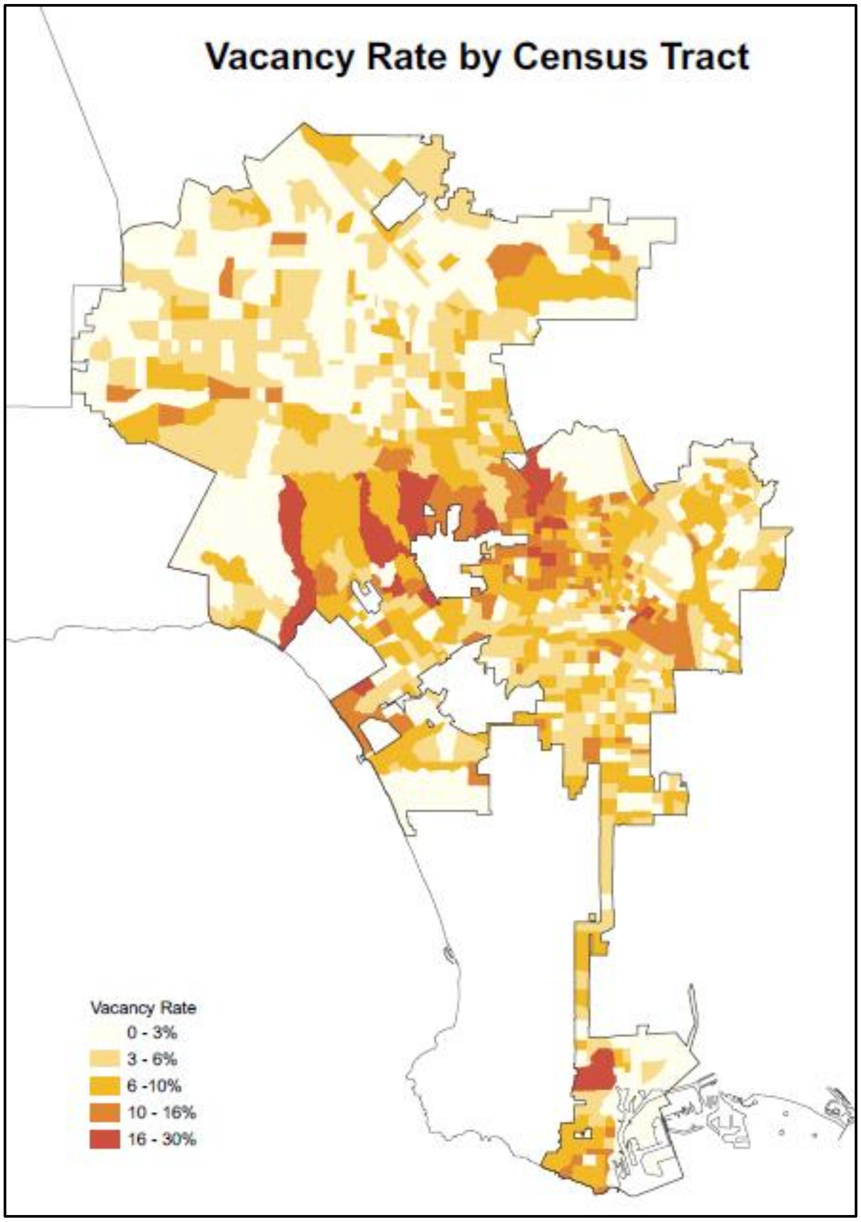
[10] Mallach, Alan. 2018. *The Empty House Next Door: Understanding and Reducing Vacancy and Hypervacancy in the ipumsUnited States*. Lincoln Institute of Land Policy.

[11] Brinklow, Adam . “San Jose, SF among lowest vacancy rates in the U.S., says study” March 21, 2019. https://sf.curbed.com/2019/3/21/18276227/vacancy-rate-san-jose-san-francisco-lendingtree


Vacancy Rate by Census Tract
Vacancy Rate
0 - 3%
3 - 6%
6 -10%
10 - 16%
16 - 30%

Types of Vacancy

Vacancy in Los Angeles: The Numbers
More than **103,000** vacant housing units in the City of Los Angeles in 2017 according to the Census Bureau
A total of over **51,825** non-market vacant units in the city that are potentially supporting speculation and excess rather than housing people
More than **10,500** second homes in the City of Los Angeles in 2017 according to the Census Bureau
41,325 other non-market vacant units in 2017 the City of Los Angeles according to the Census Bureau
36,300 Unhoused residents of the City of Los Angeles in 2019 according to LAHSA
49% of all vacant units in the City of Los Angeles held in a type of non-market vacancy

[12]

Some vacancy is expected in any region's housing supply. Units are often vacant simply because they are between inhabitants and are currently for rent or for sale. Some have been rented or sold but the new residents are yet to move in. Units can be vacant when they are being repaired or otherwise under construction too disruptive for residents. These types of vacancies serve a purpose during the normal functioning of any housing system and are both inevitable and relatively harmless.

Other types of vacancy, however, are not so benign. The Census Bureau collects data on residential vacancy generally, but also has a category for "non-market vacancy," properties that are being held permanently out of the housing system for various reasons. The two major subcategories that are relevant to non-market vacancy are "units occupied by persons with primary residence elsewhere," which we are calling *second homes* and "other vacant." Many of vacancies in these categories, between which there are overlapping structural causes stemming from the allocation of housing by wealth, not by need can be deeply problematic.[13] Both of these subcategories pose significant problems for the ability of a housing system to realize its purpose of housing people.

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[12] US Census Bureau 2017 American Communities Survey 5-Year fron NHGIS IPUMS (2013_2017_ACS5a/b), LHASA 2017 Greater Los Angeles Homeless Count. See methodology and footnotes for more information.

[13] "Definitions and Explanation" *United States Census Bureau.* https://www.census.gov/housing/hvs/definitions.pdf

Non-market vacancy in general reflects the failure of a housing system to effectively, efficiently, and equitably allocate housing units to fulfil their purpose as homes. Sometimes these units are being held in a form of abandonment, either “literal” where the owner has totally ignored the unit, or “constructive” where the owner is present but fails or refuses to maintain the property which perpetuates direct harms on the communities the units are located in.[14] One example of this is this is the non-maintenance of buildings that have been cleared of tenants through an Ellis Act eviction, a tool for landlords to mass evict a building full of tenants to leave the rental market, and are yet to be demolished or redeveloped. In other cases, flippers and other speculative buyers can receive higher sale prices for properties that they “deliver empty” (i.e. cleared of tenants through eviction, harassment, and/or non-renewal) to developers seeking to rehab and re-rent or redevelop a site. Many buildings are left partially or mostly vacant for months or years while the landlord attempts to drive the last tenants out. We consider all of these phenomena to be “problematic” vacancies. Problematic vacancy is particularly damaging, because the properties that fall into this category play no part in housing people and serve no social purpose. Finally, some of these units, many of which are classified as “second homes” are bought by persons or corporate entities and maintained as pure investments to capitalize on the rising values of the property, a problem that is especially prevalent in luxury condominiums as we explore to come.

Sometimes, however, normal or on-market vacancy is speculatively produced. When landlords seek to rent properties for far more than residents of the area they are located in can pay, and units sit vacant for long periods of time, these units are vacant as the result of speculative behavior just as much as abandoned properties are. Unfortunately the Census Bureau does not systematically catalogue long term vacancies (some but not all fall into the category of “other vacant” units), which makes understanding the quantity of units this represents extremely difficult. If DWP data were once again collected and made publicly available, a much clearer picture of long-term vacancy could be obtained, an effort that city agencies should continue to engage with. Later in this report we profile what this looks like in practice, when we explore the overproduction of luxury housing in Downtown LA.

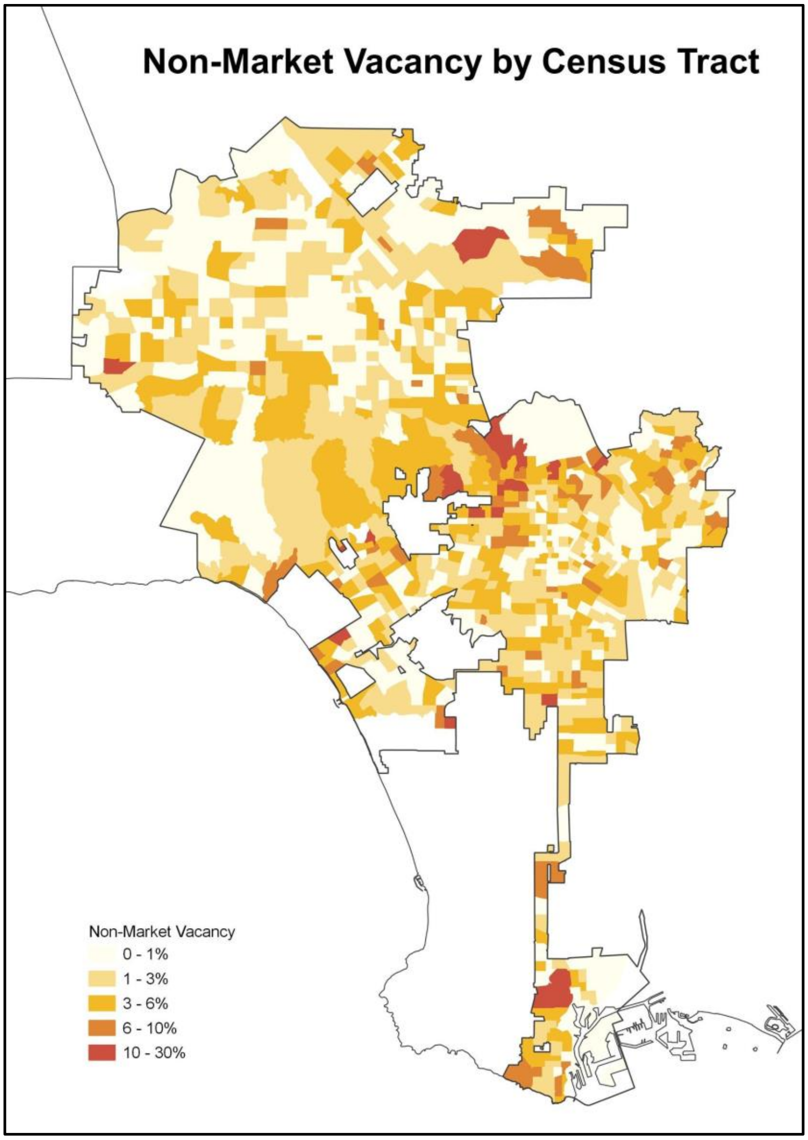
[14] Mallach, A. (2018). The Empty House Next Door: Understanding and Reducing Vacancy and Hypervacancy in the United States. Lincoln Institute of Land Policy.

Neighborhood Vacancy Characteristics[15]

Neighborhood [16]	**Overall Vacancy Rate 2017**	**"Other" Vacancy Rate 2017**	**% Vacant Units "Other Vacant" 2017**	**Real Rent Increase[17] 2011-2017**	**Rent Increase As % of Inflation**	**Rent Burdening Rate 2017**	**Houseless Residents Est. 2019**
Downtown	*8.4%*	*2.0%*	*25.2%*	*27.6%*	*434%*	*54.7%*	*7,918*
Historic South Central[18]	*6.0%*	*2.7%*	*39.7%*	*7.9%*	*196%*	*66.7%*	*2,150*
Vermont Square	*5.7%*	*3.3%*	*52.6%*	*10.5%*	*227%*	*66.6%*	*910*
Crenshaw/ West Adams	*6.8%*	*3.4%*	*47.8%*	*8.3%*	*201%*	*61%*	*528*
Lincoln Heights	*4.7%*	*2.2%*	*51.6%*	*10.6%*	*229%*	*59.9%*	*702*
Mid-Wilshire	*8.6%*	*2.8%*	*33.2%*	*7.4%*	*189%*	*50%*	*216*
Hollywood	*11.8%*	*3.6%*	*31.0%*	*11.4%*	*238%*	*55.5%*	*1,588*
Westwood	*12.4%*	*3.7%*	*26.5%*	*14.7%*	*279%*	*52.2%*	*720*
Venice	*10.2%*	*3.2%*	*29.4%*	*7.5%*	*191%*	*44.5%*	*1439*
N. Hollywood	*4.6%*	*2%*	*40.2%*	*6.0%*	*172%*	*57.6%*	*1105*
Sun Valley	*4.6%*	*2.6%*	*58.4%*	*10.8%*	*231%*	*61.7%*	*1,525*
Sylmar	*4.8%*	*2.3%*	*51.5%*	*27.6%*	*434%*	*55.8%*	*450*
Woodland Hills	*5.64%*	*2.1%*	*35.5%*	*31.0%*	*476%*	*50.0%*	*191*
Northridge	*4.5%*	*1.2%*	*34.6%*	*24.2%*	*393%*	*63.1%*	*97*
San Pedro	*7.7%*	*2.6%*	*29.3%*	*8.6%*	*205%*	*54.9%*	*691*
City Wide	***6.0%***	***2.4%***	***41.3%***	***9.8%***	***219%***	***56.5%***	***36,300***

[15] US Census Bureau 2017 American Communities Survey 5-Year fron NHGIS IPUMS (2013_2017_ACS5a/b), LHASA 2017 Greater Los Angeles Homeless Count. See methodology and footnotes for more information.
[16] As defined by the LA Times http://maps.latimes.com/neighborhoods/, includes all tracts wholly or partially in neighborhood
[17] Inflation Adjusted
[18] Also Includes "University Park"

Speculative Vacancy, and Why it Matters



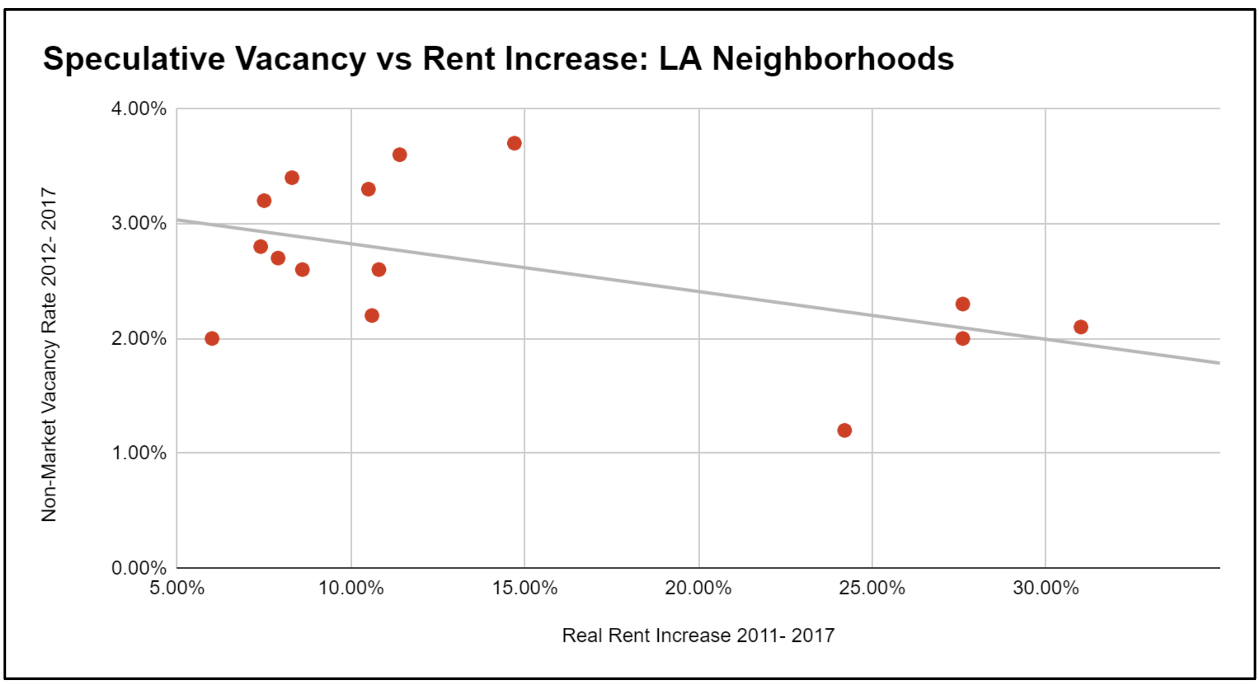
Speculative vacancy, or vacancy that is perpetuated by speculative activities, is a huge problem in Los Angeles, and a broad phenomenon with many manifestations which we discuss throughout this report. One way in which speculation can manifest in vacancy is exemplified by the more than 41,000 problematically vacant units of housing sitting unoccupied in the city, the owners of which have no immediate intention of returning them to the market.[19,20] These units represent almost 2.5% of the total housing stock, and more than 41% of all vacant units in the city are being held in a state of problematic

[19] Mallach, A. (2018). The Empty House Next Door: Understanding and Reducing Vacancy and Hypervacancy in the United States. Lincoln Institute of Land Policy.

[20] US Census Bureau 2017 American Communities Survey 5-Year fron NHGIS IPUMS (2013_2017_ACS5a/b),

vacancy. [21] Expanding to non-market vacancy by including second homes in these figures accounts for just under 50% of all vacant properties in the city. Vacant land that is privately owned may also be a form of speculative vacancy. Land banking is a major problem in all cities, but especially in Los Angeles, where there are more than 800,000,000 square feet of vacant lots.[22] This accounts for just under 6% of the entire area of the City of Los Angeles, a huge amount of space currently going unused. The purchase of land and housing for the purpose of speculating on the long-term increase in property values seems irrational to many. In Los Angeles, however, persistently high and rising land values makes this investment a safe bet. Due to the effects of Proposition 13 on California's property taxation, investors have spent decades sitting on properties purchased at prices that would be considered extremely low by today's standards, paying the barest minimum of taxes on them.

One clear indication that many non-market vacancies are being withheld from the market due to the speculative behaviors of their owners is the relationship between the rate of problematic vacancy and the rate of rent increases in a neighborhood. As indicated by the graph, there is a negative correlation between rent increases and the total rate of speculative vacancy, meaning neighborhoods that have fast rising rents tend to have lower rates of speculative vacancy. The significance of this relationship is that it indicates that generally speaking, many property owners holding vacant units are renting them out when the rents they might get rise enough for their liking. This suggests that landlords are banking on the low tax burdens they face from Prop 13, and the rising property values across Los Angeles to provide a return on their investment, a textbook example of speculation.



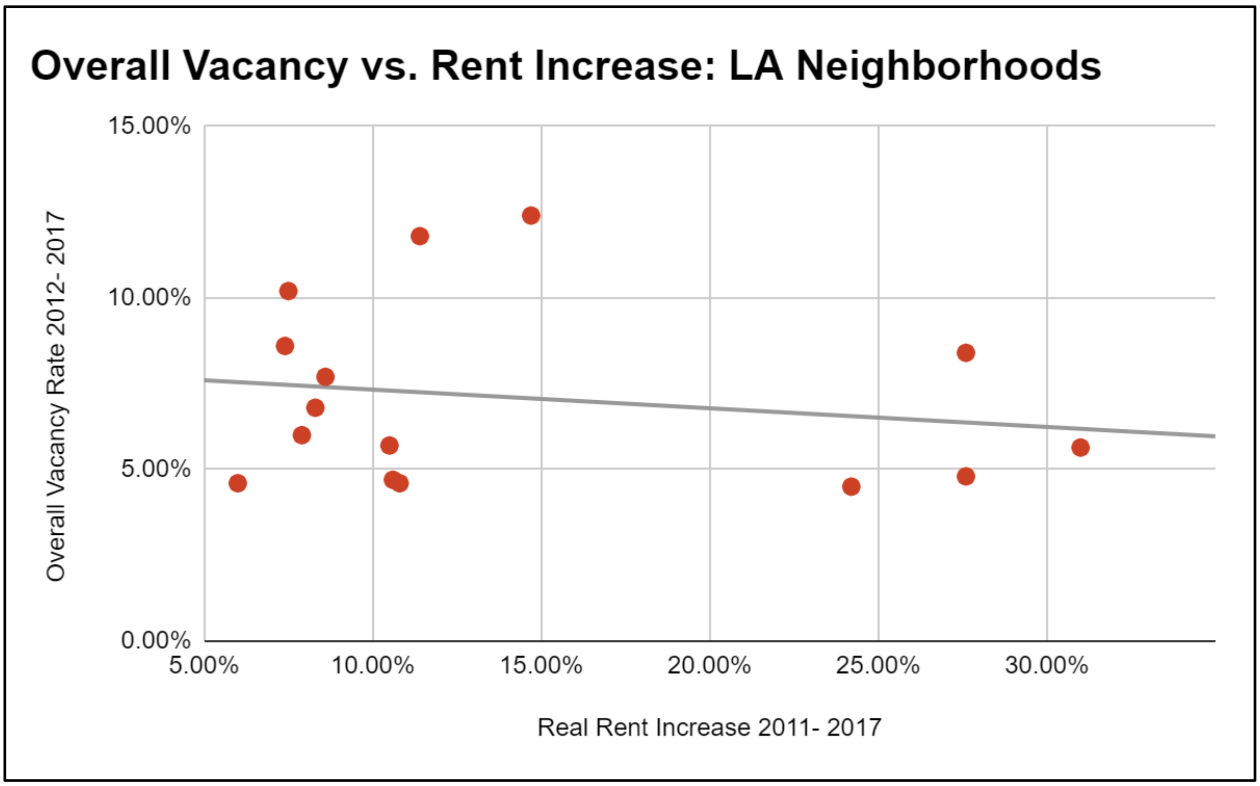
[23]

[21] ibid.

[22] According to Los Angeles County Assessor Data

[23] Neighborhoods are those listed in the table "Neighborhood Vacancy Characteristics," data source was U.S. Census Bureau 2017 ACS 5 year from NHGIS IPUMS (2013_2017_ACS5a/b)

Also significant in support of the argument that the units we are calling non-market vacancies are being withheld from the market speculatively and returned when rents rise enough to the liking of their owners is that this is not true generally of overall vacancy. Overall vacancy rates, as is evident from the table "Neighborhood Vacancy Analysis" in the appendix as well as the graph, have a far weaker link to increasing rents in a neighborhood. While overall vacancy tends to be less in the neighborhoods we surveyed with fast rising rents, it does not fall as dramatically as non-market vacancy does. In fact, rising rents have a nearly 8.5 times stronger association with falling speculative vacancy than with following overall vacancy at the neighborhood scale in our sample (R^2 0.263 vs R^2 0.031). When the analysis is performed for all census tracts citywide, a less valuable exercise as vacancy is generally a neighborhood phenomenon, rising rents are actually correlated with increasing rates of overall vacancy, though the associations are much weaker.[24] With this in mind, it is a reasonable claim to assert that speculative behaviors on the part of property owners are a considerable force driving the proliferation of problematically vacant properties in Los Angeles.



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Speculative vacancy locks up units that are sorely needed in the housing system today, and land that could be developed into deeply affordable housing or otherwise be used for the benefit of the community. Worse, the extremely low property taxes these speculators are paying thanks to Proposition 13 starves the

[24] Overall vacancy vs rising rents all LA city tracts: R: 0.057208, Speculative vacancy vs rising rents all LA city tracts R -0.00475

[25] Neighborhoods are those listed in the table "Neighborhood Vacancy Characteristics," data source was U.S. Census Bureau 2017 ACS 5 year from NHGIS IPUMS (2013_2017_ACS5a/b)

city of revenue, especially for schools. In fact, the California Legislative Analyst's Office found that Proposition 13 has led to a significant decrease in the likelihood of long-term owned vacant lots to be developed and has shifted the revenue source for local government towards sales taxes, which disproportionately hurt the poor, and fees on new projects that further incentive land banking by increasing the relative profitability of sitting on land, especially in neighborhoods where potential rents from new development are lower.[26] Finally, speculative vacancy is just one symptom of a much larger problem: the increasing degree to which urban housing and land are being transformed from places for communities to live into financial assets to support accumulation by a small class of owners.

II. The Market is Over-Producing Luxury Housing, Much of Which Sits Vacant

When housing is treated as a speculative asset, and not as a basic necessity, resources are allocated according to what makes the most profits for investors. In Los Angeles, and in many other cities, this leads to the overproduction of luxury rental housing that is priced far out of reach for residents of the neighborhoods in which these units are built. Furthermore, many condominium units, built for ownership by investors, effectively serve the purpose of wealth storage; a safe investment as property values steadily rise. As a result, huge numbers of these luxury units sit vacant. Finally, despite the claims by powerful interests to the contrary, the benefits of luxury development do not simply "trickle down" in the form of lower prices for all Angelenos.

We Are Building Housing, But Who Is It For?

The proliferation of problematic vacancy and other forms of non-market vacancy is one issue that emerges when speculation becomes a structural force in a housing system, but there are other features that speculation produces as well. One example of this is the overproduction of housing that is priced far out of reach for residents of the neighborhoods it is built in. Contrary to a popular narrative, a lot of new housing is being built inLos Angeles. The problem is, only the wealthy can afford it. According to Co-Star,[27] 12,000 units have been constructed in Downtown Los Angeles alone since 2014, and 3,500 more are expected to be complete before the end of 2019. Unfortunately, this building spree is unlikely to make even the smallest dent in the city's housing crisis, because the housing being constructed is not the type of housing that is most needed.

Downtown Los Angeles has an extremely top heavy rental market to begin with, and practically all (97.2%) of the units currently under construction are in the most expensive class of housing identified by Co-Star. Of 32,393 currently existing units in the neighborhood, 72.33% (or 23,431 units) fall into this "4 & 5 star" class with an average rent of over $2,800 a month and per square foot rent of $3.27. There is already a glut of housing in this category, leading to an astronomical vacancy rate of 16.3% for units of this kind, driving up the overall vacancy rate to 13.1% by Co-Star's calculation. In comparison, the

[26] "Common Claims About Proposition 13" *California Legislative Analysts' Office.* https://lao.ca.gov/Publications/Report/3497
[27] Co-Star DTLA Muti-Family Submarket Report, April 2019

vacancy rate for the 8,962 units not under this super luxury designation is under 5%. This disparity is only going to be compounded going forward, due to the massively mis-balanced composition of units that are currently planned or under construction, as 3,402 of the 3,500 units under construction are the most luxury class[28].

Clearly, this type of development is emblematic of a larger problem. Luxury rental megadevelopments that have been popping up all over Downtown sit with hundreds of units vacant. Towering condominiums all across the city have higher portions of apartments owned by corporations than homes to real people. To get more granular data than can be gleaned from the Census Bureau, we analyzed 10 apartment towers that have been recently constructed in downtown Los Angeles, in addition to 25 luxury condominium buildings located in various neighborhoods throughout the city. Our analysis provides the most detailed look at vacancy in Los Angeles to date, and paints a compelling picture of a housing market that is failing, in absolute terms, to actually house people.

Vacant Luxury Rentals

As stated above, practically all of the new units under construction in Downtown are in the most expensive luxury category available. What the "4 and 5 star" designation obscures, however, is truly how expensive and inaccessible these new units are. In order to formulate a more complete picture of Downtown's luxury housing boom, we took a look at 10 luxury apartment towers that were completed in the neighborhood since 2016, identified for us by Co-Star. [29]

Across the 10 apartment buildings profiled, we found an average vacancy rate of over 70%. Aven, a sleek 38-story tower developed jointly by developers Mack Urban and AECOM in the booming South Park neighborhood[30], is nearly 80% vacant, with 422 of 536 total units sitting empty as of April 2019. Despite this, prices at Aven have not dropped, with the average rent being held above $4,000 per month. Aliso, a project in the "up-and-coming" Arts District, has 423 of 472 units vacant, with average rent at $2,605 per month. A pair of residential towers in the Fashion District developed by the $3-billion firm Holland Partner Group[31], Griffin and Grace On Spring, have vacancy rates of 84% and 92%, respectively. Combined, these two buildings have over 500 vacant units, and average rents above $3,000 per month.

In total, these 10 apartment buildings alone collectively hold 2,809 empty units, enough to house nearly one-tenth of LA City's unhoused population—if each person got an entire unit to themselves.

Because these units are technically on the market—though at a price that very few renters can afford — they do not fall into the category of "problematic vacancy." Despite this, we can see very clearly how their vacancy is nonetheless speculative, as owners hold units above certain prices in anticipation that

[28] Ibid, Co-Star Underwriting Report Dated Spring 2019

[29] Co-Star Underwriting Report Dated Spring 2019

[30] Slayton, Nicholas. "Mack Urban Looks Up With Aven, Part of a $1.2 Billion Vision in South Park." *Los Angeles Downtown News.* 11 March, 2019. http://www.ladowntownnews.com/development/mack-urban-looks-up-with-aven-part-of-a-billion/article_8d412862-4206-11e9-9cd2-8799b714d354.html

[31] "Investments." Holland Partner Group. https://www.hollandpartnergroup.com/services/investments/

willing renters will be available in the future. This is what speculation looks like in practice: empty luxury towers while thousands live in desperate poverty on the streets below.

Apartment Building Name	*Total Units*	*Avg. Rent per sqft April 2019 ($)*	*Avg. Effective Rent April 2019 ($)*	*Vacancy Rate April 2019 (%)*	*Vacant Units Est. April 2019*
825 South Hill	490	5.2	4,786	63.9	313
AVEN	536	4.9	4,142	78.7	422
Circa LA	648	4.63	4,864	65	421
888 at Grand Hope Park	525	4.09	3,037	60	315
Aliso	472	3.84	2,605	89.6	423
Broadway Palace	649	3.58	2,874	21.9	142
The Griffin on Spring	275	3.81	3,220	*83.6*	230
Alina Los Angeles	341	3.43	3,055	*78.6*	268
The Grace on Spring	300	3.5	3,096	*91.7*	275
Total	**4236**	***Avg. $4.11***	***Avg. $3,520***	***Avg. 70.33%***	***2809***

With this type of development happening, it is no surprise that Downtown's rents increased by 434% of the rate of inflation between 2011 and 2017, a real, inflation adjusted increase of 26.7%. In a neighborhood where the median renter household made just over $43,000 a year in 2017, and 54.7% of renters were paying more than a third of their pretax income in rent, it is equally clear that these developments are intended to replace the residents who live in Downtown, not to house them.

Market rate construction in gentrifying areas drives up rents in the area. Inspired by recent push-back by tenant advocates against a proposed 577-unit market rate development near the Expo/Crenshaw Metro station, Los Angeles City Council President Herb Wesson recently proposed that the city establish "Anti-Displacement Zones," that would protect low-income residents from the negative impacts of luxury housing development. The draft motion calls attention to the fact that Los Angeles needs housing that working class residents can afford.[32]

When developers put up exclusive luxury buildings that rent for more money a month than the residents currently living in a neighborhood make, they are making a speculative bet on what that neighborhood will look like in the future. Unlike many industries, real estate development has a long timeline to deliver profits, and developers can create their own demand for upmarket products. When nationally regarded builders and architects put up skyscrapers in a neighborhood, it transforms both physically and symbolically into a livable and desirable space for the rich. The transformation of Downtown Los Angeles since the 1990s into a playground for the wealthiest people in the world is, in and of itself,

[32] City of Los Angeles, City Council. Motion. *Los Angeles City Council*, 24 September 2019, http://clkrep.lacity.org/onlinedocs/2019/19-1129_mot_09-24-2019.pdf

evidence of this. It is also evidence of the massive profits that dominating a city's development brings to the real estate industry.

Wealth Storage in Condominium Towers

Beyond apartments, Los Angeles is also filled with luxury condo towers in which a majority of units sit vacant. Furthermore, these complexes are not just concentrated in downtown, but are spread across neighborhoods throughout the city. And it's not just about what is being built, but what has been built; development in Los Angeles has always been speculative and because of that, the city has been home to a number of super luxurious, and super vacant, condominium towers for decades. Here, however, unlike in the case of luxury rental construction, it is not only the entire building that is being speculated on, but each individual unit itself.

Across the 25 developments analyzed, we found 2,399 vacant units out of 3,244 units total, a collective vacancy rate of 71%, and, again, enough units to house a substantial fraction of those experiencing homelessness in Los Angeles. In every single building we looked at, ***at least half the units are vacant***. Furthermore, in this same sample, ***46% of all units are owned by institutional investors.***

Instead of housing Angelenos, these empty buildings simply serve as investment vehicles for global speculators. Worse yet, several of the developments we profiled were constructed with substantial support from the state in the form of tax dollars, public land, or zoning changes.

Local Government's Role

The truth is, while capitalist processes represent the primary force behind the production of these empty towers, Los Angeles' luxury real estate market is supported by the City and County at every step of the way. This report calls attention to the role of the state—of planners and policymakers—in incentivizing speculative investment in cities. In our data we can see what Samuel Stein, in his book *Capital City: Gentrification and the Real Estate State*, calls "geobribery—the way planners use public finances to lure private investment into specific areas."[33] Below we've highlighted just three of the most egregious cases where public land and funds have been used to subsidize private profit in the form of luxury condo towers that largely sit vacant.

The Residences at W Hollywood

The W Hollywood Hotel and Residences opened in 2010 at the corner of Hollywood and Vine. Situated atop the Red Line subway, the $600 million development, which includes a W Hotel and 142 condominium units, was built on land owned by the Metropolitan Transportation Authority (Metro).[34] Despite this being pitched as a transit-oriented development (TOD) that would provide housing for Angelenos close to mass transit, 118 units, or 83%, sit vacant. LA Times' architectural critic Christopher Hawthorne wrote upon its opening that "the development seems likely to speed the maturation of the

[33] Stein, Samuel. Capital City: Gentrification and the Real Estate State. Verso Press. 2019.

[34] Hawthorne, Christopher, "The W Hollywood Hotel & Residences: An urban complexity." Los Angeles Times. 29, Jan., 2010. https://www.latimes.com/archives/la-xpm-2010-jan-29-la-et-w-hotel29-2010jan29-story.html

surrounding neighborhood, which … is shaking off a seedy reputation to emerge as the one of [sic] the more vital, walkable parts of Los Angeles."[35] In other words, public land was handed over to a luxury project that sits mostly vacant and that has surely intensified gentrification in Hollywood, which lost nearly 13,000 Latinx residents while this complex was being constructed from 2000 to 2010.[36]

Solair Condos

The Solair Condos, opened in 2008 at the bustling intersection of Wilshire and Western in the heart of Koreatown, is another luxury TOD project located on public land that today sits largely vacant. Constructed as a joint project between Metro and KOAR Development, Solair's completion was widely celebrated among the city's powerful, touted by then-Mayor Antonio Villaraigosa as "the perfect example of my vision for creating a transit-oriented city that brings business and housing to Los Angeles."[37] The property has a total of 188 units, but 143 of those are vacant, amounting to an effective vacancy rate of 76%. Again we see public land in a rapidly gentrifying neighborhood being used for speculative wealth storage instead of housing that working-class Angelenos can afford.

The Metropolis

When public land isn't an option, our tax dollars may be offered instead, as happened with the Metropolis Condos in downtown LA. In this tower, by our numbers, 286 out of 308 total units are vacant, an effective vacancy rate of 93%. The Metropolis is part of a larger project by the China-based development firm Greenland USA. In 2015, LA's City Council approved $18.7 million in financial incentives over 6 years to close a supposed "feasibility gap" in order to allow the developer to build a hotel as part of the project.[38] This $18.7 million, it should be noted, is just a fraction of over $1 billion in subsidies that have been promised by City Council since 2005 to just a handful of corporate-oriented development projects, as detailed in a recent report by the Los Angeles City Controller.[39] Furthermore, the developer has received $310 million dollars in loans from Cotton Group and Natxist to finish the property's third residential phase,[40] another massive condo tower where a majority of the units are sure to sit vacant.

Instead of handing over public land and funds for development that serves speculative investors and raises property values, local governments and agencies in Los Angeles should proactively use their assets to alleviate the housing crisis.

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[35] ibid.

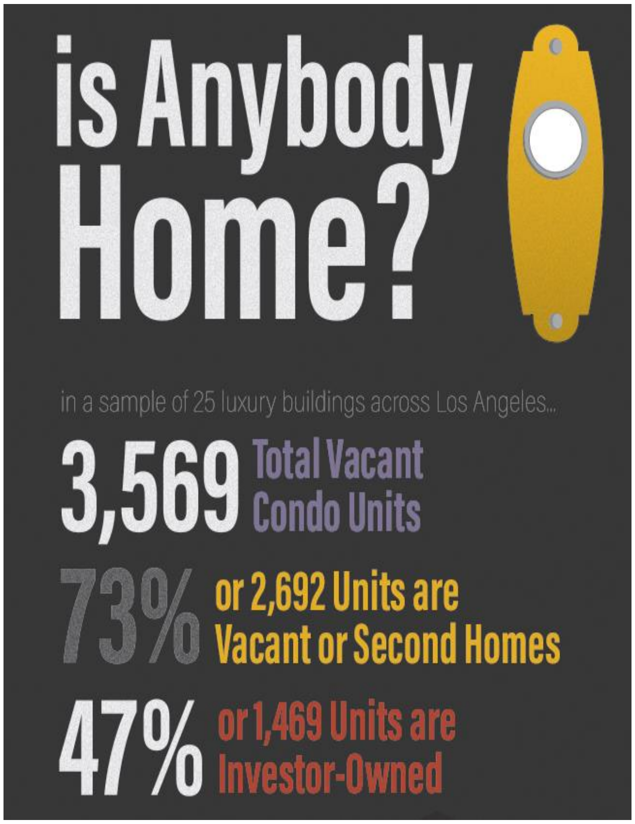
[36] McDonald, Patrick. "Hollywood's Urban Cleansing." *LA Weekly*. 3, Jan., 2013. https://www.laweekly.com/hollywoods-urban-cleansing/

[37] "KOAR, L.A. Metro Celebrate Grand Opening of Solair 22-Story Transit-oriented Development At Wilshire / Western Metro Purple Line Station." Metropolitan Transit Authority. 29, May, 2009. https://www.metro.net/news/simple_pr/koar-l-metro-celebrate-grand-opening-solair-22-sto/

[38] Galperin, Ron. "Incentive Agreements (Tax Abatements/Subvention Agreements, CF# 15-0850-S2)." City of Los Angeles. 10, Aug., 2018. http://clkrep.lacity.org/onlinedocs/2015/15-0850-S2_rpt_CTRL_08-10-2018.pdf

[39] Ibid.

[40] Pimentel, Joseph. "Downtown LA's Metropolis Receives $310M Loan To Complete Third Residential Tower." *Bisnow*, 21 Aug. 2018, https://www.bisnow.com/los-angeles/news/construction-development/downtown-las-metropolis-receives-310m-loan-to-complete-phase-2-91989.



Address	Year Built	Council District	Units	Vacant/Second Home	Effective Vacancy Rate	# Units Investor Owned	% Investor Owned
200 N San Fernando	1925 (converted 2011)	1	104	62	60%	14	13%
1940 N Highland	2017	4	80	45	56%	9	11%
4460 Wilshire	1980	4	44	26	59%	20	45%
865 Comstock	1961	5	113	72	64%	65	58%
10380 Wilshire	1990	5	73	33	45%	58	79%
1 Century	2009	5	140	109	78%	109	78%
1200 S Club View	2009	5	34	32	94%	32	94%
10445 Wilshire	1980	5	109	66	61%	57	52%

10560 Wilshire	1982	5	116	76	66%	87	75%
10580 Wilshire	1991	5	95	50	53%	72	76%
10727 Wilshire	2000	5	93	63	68%	51	55%
10800 WIlshire	2006	5	79	55	70%	66	84%
3785 Wilshire	2008	10	188	143	76%	57	30%
3810 Wilshire	1962	10	238	174	73%	53	22%
3223 W 6th	1964 (converted 2008)	10	98	60	61%	30	31%
13700 Marina Pointe	2003	11	448	332	74%	152	34%
6253 Hollywood	1923 (renovated 2008)	13	68	50	74%	13	19%
6250 Hollywood	2010	13	142	118	83%	54	38%
6735 Yucca	2007	13	54	36	67%	12	22%
1645 N Vine	1928	13	96	83	86%	36	38%
1050 S Grand	2016	14	155	139	90%	43	28%
801 S Grand	1985	14	135	103	76%	47	35%
889 Francisco	2016	14	308	286	93%	41	13%
1155 S Grand	2008	14	318	232	73%	92	29%
4080 Glencoe	2009	11	100	61	61%	25	25%
TOTALS			3244	2399	71%	1272	46%

Trickle Down Fantasy

Like the benefits of a tax code that favors the wealthy, the benefits of constructing luxury housing simply do not trickle down. There is a narrative upheld by some self serving interests that the production of any type of housing will increase the supply of housing available in the market and thus lower prices and lead to generally more affordable housing.

In reality, housing is not a coherent commodity category like any other that can be priced as such in a market.The pricing of housing is highly complicated, and dependent on a plurality of factors including the value of land. No matter how many units are built in a city, the supply of land never changes, and the value almost always increases. The very act of building luxury housing in an area can drive up the prices of all neighboring units, because of the spillover effects of gentrification. [41] In addition, the housing market is actually highly segmented, and increasing the supply of high-amenity-high-price housing has little effect on the price of housing broadly. [42] Housing markets are also highly segregated, meaning that there are substantial non-market barriers to residential mobility for residents who are people of color, or have different immigration or citizenship status, that prevent many from accessing particular neighborhoods or classes of housing beacuse of discrimination. Furthermore, not all housing construction, especially of luxury units, ends up actually housing people as we discuss later. With the increasing financialization of the economy and the constantly long term rise of land values, housing is a huge site of speculative investment and wealth storage. When a private equity shell company is the new resident of a unit, they are not moving out of a different unit that then becomes available.

The narrative that building any type of housing will help, even housing for the rich, is dangerous because it provides policymakers with the justification to do nothing in the face of an affordable housing crisis, waiting instead for the market to alleviate it. Worse, the narrative suggests that policymakers should always approve any luxury housing, because it will ultimately increase supply and be good for everyone, which can lead to spiraling gentrification and displacement when the market is hot and luxury towers are left vacant as wealth-building opportunities for the richest investors in the world.

III. The Housing Market is a Site of Speculative Finance, and Becoming More so

In the last few decades, the housing sector in the United States has undergone a dramatic process of financialization, where property is increasingly concentrated into the hands of private equity and corporate interests. Financialization has driven the transformation of housing into an investable commodity, and accelerated the many deleterious and speculative trends catalogued in this report. Vacant homes, stores, and lots are just one symptom of what happens when a city's housing system is set up to benefit a small group of speculators. But who the speculators are is another issue that needs to be addressed.

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[41] Chew, Amy. "Here's What We Actually Know About Market-Rate Housing Development and Displacement." Shelterforce. 5 November 2018. https://shelterforce.org/2018/11/05/heres-what-we-actually-know-about-market-rate-housing-development-and-displacement/

[42] Jacobus, Rick. "Why Voters Haven't Been Buying the Case for Building." Shelterforce. 19 February 2019. https://shelterforce.org/2019/02/19/why-voters-havent-been-buying-the-case-for-building/

Who are the Speculators and Who Owns Los Angeles

As shown in Part II, vacancies are incentivized by the financialization of the housing systems. Across the 10 apartment buildings and 25 condominium developments we profiled, we found an average vacancy rate of over 70%. Furthermore, 46% of the condos are owned by institutional investors. The numbers reveal that these empty condos are not homes, but rather serve as investment vehicles for global speculators. The identity of these speculators, however, is another issue that needs to be addressed. Corporate entities (including trusts, banks, partnerships, and other investment vehicles) own over 41% of all residential properties in the City of Los Angeles.[43,44] This same group of corporate entities own more than 22 square miles of vacant lots in the City, which is 76% of all privately-owned vacant lots and 49% of all vacant land in the City.[45]

Who Owns LA: The Numbers

More than 41% of all residential properties are directly owned by banks, corporate entities, or trusts in Los Angeles, according to the LA County Assessor's entries for property owner name.

More than 613,513,000 square feet, the equivalent of **10,651 Football Fields,** or **22 square miles** of vacant lots owned by corporate entities in Los Angeles accounting for **over 4% of the whole city**

76.6% of all privately-owned vacant lot area in the city are owned by corporate entities

49% of all vacant land in the city is owned by corporate entities

[43] Mortgage loans issued by banks are not categorized as bank owned and are therefore excluded from this 41% figure.

[44] According to LAC Assessor data as of June 2019, and likely an underestimate due to issues and inconsistencies in recording, and the difficulties of determining the actual beneficiaries of property ownership, as discussed in this section. The Assessor's dataset is massive and there are many variations in the naming of entities and entity types due to inconsistent entry of ownership information. Further, corporate ownership is not tracked there in a meaningful way. Many more properties that are nominally owned by individuals or companies are in reality predominantly owned by banks through the mortgage system, the securitization of which means that there could be hundreds of investment vehicles and thousands of investors who have a stake in properties that appear "owned" by others.

[45] According to LAC Assessor data as of June 2019, and likely an underestimate due to issues and inconsistencies in recording, and the difficulties of determining the actual beneficiaries of property ownership, as discussed in this section. The Assessor's dataset is massive and there are many variations in the naming of entities and entity types due to inconsistent entry of ownership information. Further, corporate ownership is not tracked there in a meaningful way. Many more properties that are nominally owned by individuals or companies are in reality predominantly owned by banks through the mortgage system, the securitization of which means that there could be hundreds of investment vehicles and thousands of investors who have a stake in properties that appear "owned" by others.

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The profits these corporate entities make flow to a tiny group of investors. Only 4.2% of families have trusts, which is the entity type that owns the largest share of corporate owned properties in Los Angeles.[47] Some trusts are not family-owned and are investment vehicles of another sort. Only 10% of households own any type of pooled investment fund shares, which includes those types of trusts and an alphabet soup of other investment companies and partnerships. Outside of retirement accounts, only 13.9% of households own stocks of any kind. When retirement accounts and pensions are included, 52.2% of families have investments of some kind,[48] but even taking this into account 84% of all stocks are owned by the wealthiest 10% of households,[49] and these wealthiest 10% take home 90% of all the profits produced by investments.[50]

Tracking the individuals who ultimately benefit from corporate investment into land and housing is extremely difficult. As other researchers have noted, it is easier to start a shell corporation than it is to get a library card in many cities. Any of the corporate entities surveyed could have a number of investors that themselves may be corporate entities, or might be run wholesale by another corporation to begin with. [51] Many types of property investment companies are also securitized to some degree, meaning they issue shares as securities either on the public stock markets or privately to institutional investors, private equity, and high net worth individuals. Gaining a clearer picture of who owns cities is a crucially important issue for further research and one of the reasons we call for Los Angeles to adopt "Municipal Disclosure Requirements" in the recommendation section of this report. Generally speaking, however, what this all means is that the vast majority of vacant land and many vacant properties are sitting vacant for no other reason than to pad the pockets of the richest investors and corporations, at a huge cost to communities.

Financialization of Housing in the US and Speculative Finance in Cities

When a small class of investors and corporations come to control a large part of the housing system, this refers to a process called financialization. Financialization happens when private equity interests and corporations, who seek investment from private individual investors and huge Wall Street firms alike, start to buy up properties and turn them into income generating assets to generate profits for their

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[46] The data in the chart is derived from a query of ownership data in the Los Angeles County Assessor rolls to find properties owned directly by a variety of entity types (Trust, Limited, Corp, Inc, Holding, Co, LP, Bank, Investments, Fund, Properties, and Real Estate, and common variations of these, are the search terms used in the query)

[47] "Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances" United States Federal Reserve . September 2017. https://www.federalreserve.gov/publications/2017-September-changes-in-us-family-finances-from-2013-to-2016.htm

[48] Ibid.

[49] Cohen, Patricia. "We All Have a Stake in the Stock Market, Right? Guess Again" The New York Times. 8 February 2018. https://www.nytimes.com/2018/02/08/business/economy/stocks-economy.html

[50] Kitson, Kayla. "The Federal Opportunity Zones Program and Its Implications for California Communities" California Budget & Policy Center. April 2018 https://calbudgetcenter.org/resources/the-federal-opportunity-zones-program-and-its-implications-for-california-communities/

[51] Collins, C. (2019). *Who is Buying Seattle? The Perils of the Luxury Real Estate Boom For Seattle*. Institute for Policy Studies. https://inequality.org/wp-content/uploads/2019/10/IPS-SEATTLE-REPORT-FINAL.pdf

investors.[52] Investment into real estate, especially in places like Los Angeles where rents and property values are perpetually on the rise, is extremely profitable, and extremely expensive, putting this type of investment increasingly out of reach for the "mom and pop" landlords of yesteryear, and leading to an increasing concentration of housing into the hands of entities like REITs or Real Estate Investment Trusts, which are companies or partnerships set up solely to invest in real estate, as well as corporate entities like Blackstone.

Financialization has also been described as "the increasing dominance of financial actors, markets, practices, measurements and narratives, at various scales, resulting in a structural transformation of economies, firms (including financial institutions), states and households."[53] In her book *Urban Warfare*, former UN Special Rapporteur on Housing Racquel Rolnik argues that this financialization of housing "is, in fact, the takeover of the housing sector by finance - the structural element of contemporary capitalism. We live under the empire of finance...an era of increasing dominance of rent extraction over productive capital." Using Rolnik's description of this process as the "long process of deconstruction of housing as a social good and its transformation into a commodity and a financial asset, which began in the first decade of the twenty-first century," we can see the role of speculative finance in producing vacancy in Los Angeles. [54] This report contributes to a growing body of literature on the financialization of housing, particularly literature that demonstrates how financialization operates within and furthers a racialized geography of housing finance and urban development in US cities. Fields' work situates this trajectory in an analysis of market formation in the wake of the crash, arguing that this shift in the rental market needs to be understood in terms of "power, politics, and the dynamics of capital accumulation." [55] This report seeks to do the same.

What Financialization Means for Tenants

As described in part II, the increasing financialization of the housing market means more residential units are being used as investments instead of as homes. But this process has also meant a consolidation and corporatization of ownership of properties being rented as well— or what The Right to the City Alliance has called "the rise of the corporate landlord." [56] Several studies have shown that, since the 2008 housing market crash, real estate investors have been acquiring homes through foreclosure and putting them on the rental market, signaling a significant shift in the landscape of rental housing as part of the larger process of financialization of housing. In the Los Angeles region and nationwide since the crash, we have seen the rise of what many refer to as "Wall Street landlords," or corporate entities who buy up thousands of

[52] Joe Beswick, Georgia Alexandri, Michael Byrne, Sònia Vives-Miró, Desiree Fields, Stuart Hodkinson & Michael Janoschka (2016) Speculating on London's housing future, City, 20:2, 321-341, DOI: 10.1080/13604813.2016.1145946

[53] Manuel Albers, "Corporate Financialization," in Noel Castree et al. (eds), The International Encyclopedia of Geography: People, the Earth, Environment, and Technology (Oxford, Wiley, 2015).

[54] Rolnik, Rachel. (2019). *Urban Warfare: Housing Under the Empire of Finance*. London, UK: Verso Books.

[55] Fields, D. (2018). Constructing a New Asset Class: Property-led Financial Accumulation after the Crisis. *Economic Geography*, *94*(2), 118–140. https://doi.org/10.1080/00130095.2017.1397492

[56] Fields, D. (2014). The Rise of the Corporate Landlord: The Institutionalization of the Single-Family Rental Market and Potential Impacts on Renters. The Right to the City Alliance.

homes through foreclosure and put them on the rental market. ACCE's (Alliance of Californians for Community Empowerment) foundational report entitled *Wall Street Landlords Turn American Dream into a Nightmare* lays out this shift in the landscape of rental housing nationally and provides insights on how renters have been affected. "The number of single-family rentals has been growing dramatically—from 10.5 million units in 2005 to 17.5 million in 2015, a 67 percent increase." [57] In Los Angeles, single-family homes now make up a significant portion of rental housing. Financialization, and the rise of the corporate landlord can have serious impacts on the tenants who live in the buildings that these entities buy. According to a survey of tenants of notorious corporate landlord Invitation Homes in Southern California, found in a report produced by SAJE (an authoring organization of this report), tenants of corporate landlords can face higher rates of eviction, worse housing conditions, and higher rents than other tenants, and receive poor customer service to boot. [58]

IV. This Speculative Housing Market Produces Houselessness

As described throughout this report, Los Angeles' problematic vacancies and unbalanced production of largely-unoccupied luxury housing are symptoms of a speculative housing market that prioritizes profit for a select few over housing justice for the rest. This has devastating consequences for low-income people. In particular, the speculative housing market results in the over-production of unaffordable luxury housing at the same time that existing affordable units are destroyed or converted to unaccountable corporate ownership and new affordable units are under-produced. This process is fueled by eviction and is a root cause of increased houselessness.

Affordable Housing and Inexpensive Housing Are Actively Removed from the Market

Though (as we described in part II) 3,500 units are projected to be finished by the end of the decade in Downtown LA alone, only 98 of them do not fall into Co-Star's "4 & 5 star" category of super luxury units. Only 54 units currently under construction fall under the "3 star" designation, which is still far too pricey for most Angelenos with an average rent of $1,970 a month or $2.68 per square foot. The most affordable designation of "1 & 2 star," with an average rent of $1,145 monthly or $1.99 per square foot, has only 44 units currently under construction. In fact, Co-Star predicts that the demolition of units in Downtown for the 1 & 2 star category will lead to more units of this class being lost then gained, which will curtail the availability of reasonably priced market rate housing even further. By 2023, Co-Star estimates that 646 of the existing 1 & 2 star units will be removed from the market on the net in Downtown alone. [59]

The trend of the demolition of relatively low-rent, mostly rent stabilized, housing and its replacement with more expensive units, is occurring citywide. The erosion of relatively inexpensive, predominantly rent-stabilized, market rate housing in the city creates a problem that is compounded further by the loss of

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[57] Abood, M. (2017). Wall Street Landlords Turns American Dream Into American Nightmare: Wall Street's big bet on the home rental market, and the bad surprises in store for tenants, communities, and the dream of homeownership. ACCE Institute, Americans for Financial Reform, Public Advocates.

[58]Call, R. (2014). Renting From Wall Street: Blackstone's Invitation Homes in Los Angeles and Riverside. The Right to the City Alliance. http://homesforall.org/wp-content/uploads/2014/07/LA-Riverside-Blackstone-Report-071514.pdf

[59] Co-Star DTLA Muti-Family Submarket Report, April 2019

existing affordable housing though expiring covenants, as well as the consistent shortfall in affordable housing production. According to Curbed, the City of Los Angeles estimates that 8,597 affordable housing units will become market rate due to expiring covenants in the next five years alone citywide. [60] The expiration of existing covenants is particularly problematic due to the inability of the city to produce enough affordable housing, a problem that has been compounding for years.

The Shortfall in Production of Affordable Housing

According to the California Housing Partnership Corporation (CHPC) there is a shortfall of 568,000 units affordable to low income renters countywide, a number that is only increasing. Between 2015 and 2016, they calculate, the affordable housing shortfall increased by 16,488 homes. The shortage is most severe of housing that is affordable to the lowest income renters, as the shortfall of production of housing available to deeply low income renters increased by 8%, and the shortfall of housing produced for extremely low income renters increased by 9%. At the same time, though, since 2008, the overall available funding for affordable housing has dropped by 64%.[61]

In Los Angeles City, fewer than 7,500 new units of affordable housing have been produced since 2013, according to the mayor's office. [62] The loss of existing affordable housing and persistent shortfall in new affordable construction forces many families to rely on the very scarce affordable housing that is increasingly being demolished. Lack of financial means to access housing is the number one reported factor precipitating houselessness in Los Angeles. [63]

Eviction Is a Tool of Speculation and Driver of Houselessness

Speculation does not only keep units vacant, produce units that are out of reach, and remove the most affordable units from the market, but it also serves as a force underlying an eviction epidemic that is central to the houslesness crisis we face today. The inability of tenants to pay unaffordable rents is a huge driver of eviction. Eviction is the most direct path to houselessness for many, and the Economic Roundtable found that formal eviction alone resulted in the situation of 11% of unhoused persons. [64] According to a survey of recently evicted persons in Seattle, nearly 40% were houseless shortly after their eviction. [65] Other researchers have noted that almost all currently unhoused people have been evicted at some point, and eviction is one of the largest drivers of houselesness overall. [66]

Within the existing housing market, there are simply not enough protections for renters, which forces them to look for stable rents in private, unregulated units. Rent control protects many families from being

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[60] Chandler, Jenna. "The big problem with affordable housing." Curbed LA. 25 June 2019. https://la.curbed.com/2019/6/25/18659812/affordable-housing-los-angeles-covenants-expire

[61] California Housing Partnership. Los Angeles County Annual Affordable Housing Outcomes Report. 2018, Los Angeles County Annual Affordable Housing Outcomes Report.

[62] "Total and Affordable Housing Units." LA City Open Data Portal. https://data.lacity.org/A-Livable-and-Sustainable-City/Total-and-Affordable-Housing-Units/rckt-8prm

[63] Flaming, Daniel et al. "Escape Routes: Meta-Analysis of Homelessness in L.A." Economic Roundtable. April 2018.

[64] Ibid.

[65] "Losing Home: The Human Cost of Eviction in Seattle." The Seattle Women's Commission and the Housing Justice Project of the King County Bar Association. September 2018.

[66] Desmond, Matthew. "Unaffordable America: Poverty, housing, and eviction." Institute for Research on Poverty. March 2015.

forced out of their homes by rent hikes. A lack of vacancy controls, however, means speculative landlords are incentivized to evict by the promise of higher rents, higher sale prices for vacated buildings, and the ability to renovate to attract higher income residents. Informal eviction through unreasonable and possibly illegal rent increases, long term harassment and intimidation, and spurious notices is a rampant problem in Los Angeles as well, and are similarly favored tools of speculators attempting to vacate rent controlled units to receive higher rents. Many bad-acting speculator landlords drive tenants out by perpetuating horrible slum conditions that make living in a unit unbearable. [67] Even when eviction is perpetrated through the legal system, many Unlawful Detainer filings (the process for removing a tenant) are completely spurious. Speculative landlords will do nearly anything to remove tenants from their buildings in search of higher profits regardless of what is legal. Even when these issues culminate in a legal battle tenants are almost always unrepresented when they face landlords in court. Guaranteeing tenants access to a lawyer is a crucial policy step that could help prevent speculators from putting tenants out of their homes through spurious legal action or harassment. [68]

Sometimes, however, the law aids speculators in removing people from their homes. The Ellis Act is a state law that allows landlords who do not want to be in the business of land-lording anymore to evict all the tenants and either redevelop the building to a different use type or convert the units to condominiums. Since it passed in 1985, it has primarily been used by speculators who want to evict rent-controlled tenants in cities across California. In Los Angeles, between 2001-2019, the Ellis Act has been responsible for removing 26,251 rent-controlled units from the rental market, roughly 4% of the rent-controlled housing stock in the city. [69] Recently, researchers at Stanford released a study evaluating the impacts of rent control that suggested rent control itself causes increased condo conversions and the resulting loss of rent controlled housing stock, but looking through the lens of speculation, we can see that this logic is insultingly flawed.[70] Speculation on rent-controlled housing by taking advantage of a policy loophole drives this loss of affordability, not the rent control policy itself.

The Ellis Act itself was real-estate industry funded legislation passed in the 80’s intended to weaken the rent control policies that had recently passed in many cities statewide. The same class of corporate and landlord interests that funded the legislation are those engaging in speculative practices that perpetuate houselessness today. In Los Angeles, there is no limit to the number of times a building owner can “go out of business”. Owners buy and “Ellis” multiple buildings over time. [71] The mass eviction of recently bought properties by speculative developers is a clear abuse of the intended purpose of an already problematic law. Some of these “Ellised” buildings - now “out of business”- are also showing up for rent as illegal vacation rentals on sites like AirBNB and VRBO, though Los Angeles’ new protections on short-term rentals may prevent this going forward. [72] By law, after use of the Ellis, units must not be re-rented for five years, so previously rent-controlled units sit vacant instead of providing inexpensive housing for someone who may otherwise become homeless.

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[67] Reyes, Emily Alpert. “ L.A. set up a system to protect renters. What happens when it’s used against them?” Los Angeles Times. 14 May 2019. https://www.latimes.com/local/lanow/la-me-ln-tenant-habitability-plan-rent-stabilized-housing-landlord-evict-20190514-story.html

[68] See Los Angeles’ campaign for a “Right to Counsel” www.rtcla.org

[69] “Ellis Act Evictions” Anti Eviction Mapping Project http://www.antievictionmappingproject.net/losangeles.html

[70] Rebecca Diamond & Tim McQuade & Franklin Qian, 2019. "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco," American Economic Review, vol 109(9), pages 3365-3394.

[71] “Ellis Act Evictions.” Anti Eviciton Mapping Project https://www.antievictionmappingproject.net/ellis.html

[72] Said, Carolyn “ Airbnb loses thousands of hosts in SF as registration rules kick in.” San Francisco Chronicle. 14 January 2018. https://www.sfchronicle.com/business/article/Airbnb-loses-thousands-of-hosts-in-SF-as-12496624.php

Financial Speculation Links Vacancy to Houselessness

As stated above, speculation manifested in the construction of ever more luxury housing and the rapid demolition, and removal through the Ellis Act, of older less expensive housing removes thousands of units from the market citywide every year. The loss of relatively affordable housing, and the continued shortfall of the production of new deeply affordable housing to replace it, has led to a crisis of houselessness, as more and more residents are pushed out of their homes and forced to deal with a shrinking supply of reasonably-priced housing. Worse, the same speculative forces that generate high levels of vacancy, swelled by the production of luxury housing far out of the reach of residents of a neighborhood are associated with the production of houselessness.

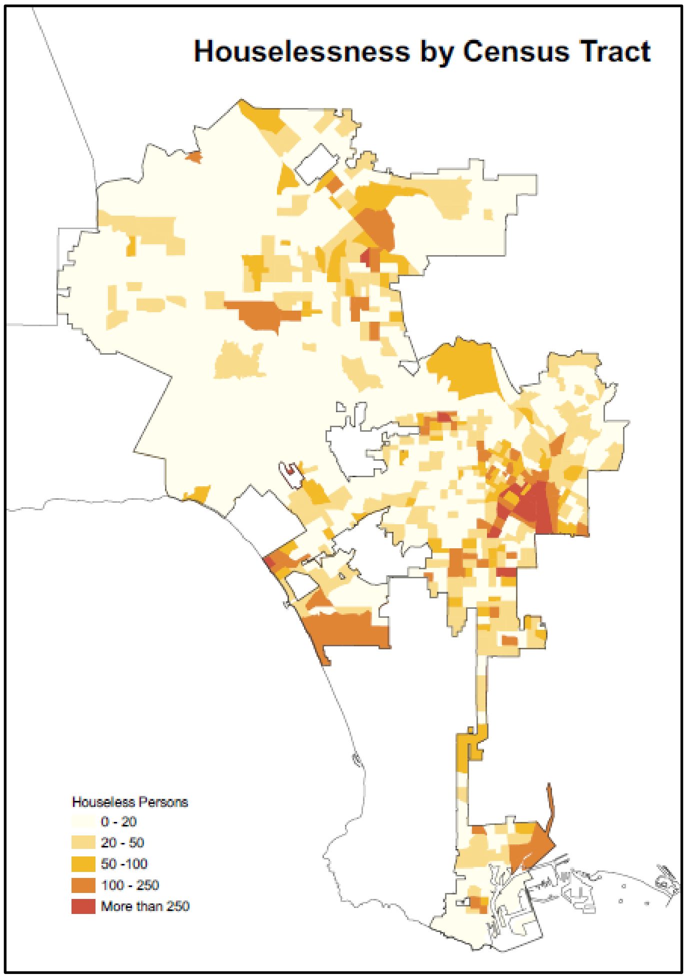
The shortfall of deeply affordable housing production, and the epidemic of eviction described above however, are not the only things keeping people unhoused. According to the Los Angeles Homeless Services Authority (LAHSA) there were just over 36,000 unhoused persons in the City of Los Angeles in 2019. According to the United States Census Bureau's American Communities Survey of the same year, there were more than 103,000 vacant units in the city, and more than 51,000 non-market vacancies in the city. The misuse of these vacant units which could otherwise be housing people in this time of crisis is a massive issue that demands addressing.

There have been many attempts to address this crisis. Prop HHH in Los Angeles is a voter-approved 10-year measure to support the construction of supportive housing to be built by November 2026. Voters passed this $1.2 billion bond in 2016. Thus far, $790 million in public funds have been committed to 5,410 total units in the pipeline for development, 4,132 of which are supportive housing units.[73] Though far short of 568,000 affordable units SCANPH estimates are needed, it represents a great start and a

[73] "Summary of HHH Pipeline." Los Angeles Mayor's Office https://www.lamayor.org/summary-hhh-pipeline

model for one type of intervention that should be pursued. [74] Production, as we have seen, is not enough though, the City should take action to address the speculative causes of houselessness in the city, as well as pursuing methods of raising revenue to serve the unhoused.

This juxtaposition of expensive and often vacant luxury development against our massive shortfall of deeply affordable housing and growing epidemic of evictions and houselessness presents a stark picture of inequality and injustice in Los Angeles. Houselessness is increasing year after year, yet every night, there are more than enough units sitting vacant to house the entire unhoused population in the city.[75] The misuse of these vacant units—which could otherwise be housing people in this time of crisis—is a massive issue that demands a response.



[74] "Los Angeles County's Emergency Housing Update." Southern California Association of Non Profit Housing. May 2019.
https://static1.squarespace.com/static/58793de5f7e0abe551062b38/t/5ce2fc70af9ae10001c74987/1558379634095/Los+Angeles+HNR+2019.pdf
[75] See "Neighborhood Vacancy Characteristics"

V. A Call to Action

In Los Angeles, we are bleeding out housing that people can afford. Rent-controlled tenants are being pushed out through harassment, intimidation, and eviction, bumping their rents up to market rate; the Ellis Act is removing rent-controlled housing from the market to the tune of 4% of the rent-controlled stock since 2001; and affordable housing covenants are expiring at an alarming rate. In response, we are building luxury units that Angelenos cannot afford and sweetening the deal with public funds and public land. While we are building some deeply affordable housing funded by the meager public funds we have dedicated to it, much of the new housing being built in Los Angeles is being used for wealth storage, widening the gap between rich and poor instead of housing people.

What is wrong with this picture? As housing becomes more and more a commodity - something to be traded and profited off of - instead of a home - this process will not get any better in Los Angeles. Since the beginning of the twenty-first century, we have handed more and more of our housing system over to private companies who seek to profit off of our communities through real estate investment. We have identified in this report that speculative finance produces both vacant homes and an unacceptable number of unhoused in our city. But though this process is global, there are neighborhoods in our city where the processes we have described above have not yet become pervasive. So this report asks — what can we do as Los Angeles, to stand up to the spread of speculative finance in our city? What can we do to reclaim our land, our homes from speculators to *house people*? The next sections of this report offer up some suggestions.

Standing Up to Speculative Finance

VI. Cities Across the U.S. and Canada are Increasingly Turning to Vacancy Tax as a Tool to Confront the Harms of Speculative Vacancy.

Since 2016, many cities and jurisdictions in the U.S. and Canada have passed vacancy penalties. Even more cities have proposed, but not yet passed, anti-vacancy measures. These policies share the goal of improving their residents' access to housing, whether by incentivizing property owners to sell or rent unoccupied properties, or by raising revenue devoted to affordable housing causes. Figure 1 outlines the key features of nine cities' existing or proposed vacancy penalties.

In California, the cities of Oakland, San Francisco, and San Diego have all either considered or passed anti-vacancy measures. Oakland voters overwhelmingly approved a Vacant Property Tax Act (VPT, or Measure W) in November 2018, which the City will assess starting in 2020.[76] The VPT imposes a flat

[76] Resolution No. 87319. Code of Ordinances for Oakland, CA, Oakland City Council, 2018, https://library.municode.com/CA/oakland/ordinances/code_of_ordinances?nodeId=930534; Pender, Kathleen. "Oakland's vacant-property tax takes effect, sparking hope – and alarm." San Francisco Chronicle, 26 January 2019, https://www.sfchronicle.com/business/networth/article/Oakland-s-vacant-property-tax-takes-effect-13563273.php.

$3,000 to $6,000 annual tax on residential and commercial properties that are occupied fewer than fifty days per year.[77] The revenue from the tax flows to a "Vacant Property Tax Fund" that capitalizes housing-related programs like assistance for the unhoused and affordable housing construction.[78] In addition, a San Francisco County Supervisor recently proposed a fee on vacant storefronts, as well as a daily penalty on residential properties with three or more units left vacant for six consecutive months.[79] In San Diego, the City's Housing Commission Chair recently proposed a tax that penalizes property owners who keep their homes vacant for over six months per year.[80]

Inspired by these movements and motivated to increase affordable housing access, policymakers in other U.S. cities have proposed vacancy penalties. To dampen Boston's recent boom in real estate speculation and luxury development, advocates have published a comprehensive report on Boston luxury developments and have proposed a vacancy tax ordinance.[81] In New York City, Mayor Bill de Blasio recently expressed interest in passing a vacancy tax or fee, to apply to vacant commercial properties.[82] New York policymakers have focused on commercial vacancy, in light of recent studies that have reported high vacancy rates in Manhattan's retail areas.[83] In Honolulu, Mayor Kirk Caldwell has proposed a fee on properties left vacant for an extended period.[84] In Seattle, a 2019 Institute for Policy Studies report on luxury housing recommends a Seattle-specific vacancy tax and ordinance.[85]

Canadian jurisdictions have also passed comprehensive anti-vacancy measures. In November 2016, voters in the city of Vancouver passed an Empty Homes Tax (EHT), which went into effect in 2017.[86] The EHT imposes a 1% tax on the value of vacant or unoccupied residential properties, subject to several exceptions.[87] Property is considered vacant under the EHT if it lies unoccupied for more than six months per year.[88] Revenues from the EHT flow to affordable housing initiatives.[89] Similarly, British Columbia

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77 Resolution No. 87319. Code of Ordinances for Oakland, CA, Oakland City Council, 2018, https://library.municode.com/CA/oakland/ordinances/code_of_ordinances?nodeId=930534.

78 Ibid.

79 "San Francisco wants to propose a vacant property tax." KTVU Fox 2, 23 January 2019, http://www.ktvu.com/news/san-francisco-wants-to-propose-a-vacant-property-tax.

80 Adams, Matt. "Housing Commission Explores Vacancy Tax." Building Industry Association of San Diego County, 17 June 2019, https://www.biasandiego.org/2019/06/17/housing-commission-explores-vacancy-tax/; Warth, Gary. "Housing Commission considers tax on vacant homes." San Diego Tribune, 14 June 2019, https://www.sandiegouniontribune.com/business/real-estate/story/2019-06-14/housing-commission-considers-tax-on-vacant-homes.

81 Collins, Chuck, and Emma de Goede. "Towering Excess: The Perils of the Luxury Real Estate Boom for Bostonians." Institute for Policy Studies, 10 Sept. 2018, https://ips-dc.org/report-towering-excess/.

82 Calder, Rich. "De Blasio: I will lobby for vacancy tax on landlords of empty storefronts." *New York Post*, 9 Jan. 2019, https://nypost.com/2019/01/09/de-blasio-i-will-lobby-for-vacancy-tax-on-landlords-of-empty-storefronts/.

83 Rosenberg, Zoe. "De Blasio hints at 'vacancy fee' for landlords of empty storefronts." Curbed New York, 2 Apr. 2018, https://ny.curbed.com/2018/4/2/17188918/de-blasio-retail-blight-new-york-vacancy-fee.

84 Finnerty, Ryan. "Could a Tax on Empty Homes Work in Honolulu?" *Hawai'i Public Radio*, 13 June 2019, https://www.hawaiipublicradio.org/post/could-tax-empty-homes-work-honolulu#stream/0.

85 Collins, Chuck. "Who Is Buying Seattle? The Perils of the Luxury Real Estate Boom." *Institute for Policy Studies*, 19 October 2019, https://ips-dc.org/report-luxury-real-estate-seattle/.

86 Empty Homes Tax." *City of Vancouver,* https://vancouver.ca/home-property-development/empty-homes-tax.aspx.

87 Ibid.

88 Ibid.

89 Ibid.

(the province encompassing Vancouver) implemented a Speculation and Vacancy Tax (SVT) in 2018.[90] The SVT imposes a tax of 0.5% of assessed residential property values for Canadian citizens or permanent residents, and a 2% tax for foreign owners and owners who do not report the majority of their income on a Canadian tax return.[91]

These vacancy penalties all take the form of a monetary tax on owners of property that remains empty most of the year. To simplify the tax's administration, many of the measures require property owners to report their own vacancy status and opt out of the tax if their property is not vacant. Moreover, all the measures that have a plan for tax revenue have decided to devote at least some of their revenues to affordable housing initiatives.

VII. The Legal Framework for Implementing a Vacant Homes Penalty in Los Angeles

Following the example of Oakland and other jurisdictions at the forefront of addressing the negative impact of speculative vacancy, a broad coalition of Los Angeles residents, community leaders, housing advocates, and grassroots community organizations have come together to help advance a vacancy tax. In June 2019, Los Angeles City Councilmember Mike Bonin introduced a motion directing City departments to report back to the Council with policy options for a vacancy tax, for consideration by voters in 2020.[92] Just like in Oakland, a local vacancy tax (hereafter "Vacant Homes Penalty") can be legally implemented in Los Angeles in conformity with California-specific tax laws. The following provides a brief assessment of the legal framework for implementing a Vacant Homes Penalty in the City of Los Angeles.

A. **A Vacant Homes Penalty in Los Angeles must be approved by voters.** The California Constitution grants charter cities,[93] like Los Angeles, the power to implement new taxes, within certain constraints.[94] However, any new tax imposed by a local government in California must first be approved by voters in an election—a tax cannot simply be adopted by the City Council.[95]

B. **A Los Angeles Vacant Homes Penalty would likely be considered a "special tax."** In California, a local tax is either a "general tax" or a "special tax."[96] Whether a tax is general or

[90] "Will your home be taxed?" City of Vancouver, https://vancouver.ca/home-property-development/will-your-home-be-taxed.aspx.
[91] "Frequently Asked Questions About Speculation and Vacancy Tax," *Government of British Columbia,* https://www2.gov.bc.ca/gov/content/taxes/property-taxes/speculation-and-vacancy-tax/faq-speculation-and-vacancy-tax.
[92] City of Los Angeles, City Council. Motion. *Los Angeles City Council*, 11 June 2019, http://clkrep.lacity.org/onlinedocs/2019/19-0623_mot_06-11-2019.pdf.
[93] A charter city is a city that has adopted a charter for its own governance. *City & Cty. of San Francisco v. Regents of Univ. of California*, 7 Cal. 5th 536, 541 (2019).
[94] *City & Cty. of San Francisco v. Regents of Univ. of California*, 7 Cal. 5th 536, 558, 684 (2019); Cal. Const., art. XIII C, § 2, subd. (a)-(d)
[95] Cal. Const., art. XIII C, § 2, subd. (a)-(d).
[96] Cal. Const. art. XIII C, § 2, subd. (a)); *see also City of San Buenaventura v. United Water Conservation Dist.*, 3 Cal. 5th 1191, 1200, 406 P.3d 733, 737 (2017), *as modified on denial of reh'g* (Feb. 21, 2018).

special depends on the purpose of the tax.[97] A general tax is any tax imposed for general governmental purposes,[98] and may be approved by a *simple majority* of the voters—50 percent plus 1.[99] A special tax, on the other hand, is any tax imposed that designates the revenue for restricted purposes, with the money going towards, for example, public housing construction or services for those experiencing homelessness.[100] Moreover, Proposition 218, passed by voters in 1996, classifies as a special tax any tax assessed upon a parcel of real property or upon a person as an incident of real property ownership.[101] Because a vacancy tax is assessed on the "real property" of a person, it would likely have to be a special tax. Unlike a general tax, a special tax requires a higher *two-thirds* voter approval.[102]

C. **A Los Angeles Vacant Homes Penalty may not be assessed on property value.** While a special tax may be assessed upon a parcel of real property or as an incident of real property ownership, Proposition 13 prevents such a tax from being determined based on the property's *value*.[103] In other words, the dollar amount a property owner must pay under the Los Angeles Vacant Homes Penalty cannot be directly tied to the value of the property.

D. **A Los Angeles Vacant Homes Penalty may be legally structured as a progressive "special parcel tax."** While a parcel tax may not be assessed on property value, several other options are available. For example, a parcel tax may be levied as a flat rate on property. Oakland's recently adopted Vacant Property Tax Act is a parcel tax that imposes an annual flat tax of $6,000 per vacant parcel or $3,000 per vacant unit in a condominium, duplex, or townhouse.[104] Valid parcel taxes in California have been structured with rates that are tied to the size of the property,[105] and that differ by use of the property[106] and the number of residential or commercial units on a given parcel.[107] In this way, the tax can be progressively structured, so that owners of presumably more valuable vacant properties pay higher rates.

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[97] *Neilson v. City of California City*, 133 Cal. App. 4th 1296, 1309, 35 Cal. Rptr. 3d 453, 462 (2005).
[98] Cal. Const. Art. XIII C, § 1, subd. (a).
[99] Cal. Const. Art. XIII C, § 2, subd. (b).
[100] Cal. Const. art. 13C, § 1, subd. (d). A special tax may have multiple purposes, and those purposes can encompass broad government functions, provided the expenditure of tax proceeds is restricted in some way. *Howard Jarvis Taxpayers Assn. v. City of Roseville*, 106 Cal. App. 4th 1178, 1185 (2003); *Neilson v. City of California City* 133 Cal. App. 4th 1296, 1310 (2005).
[101] Cal. Const., art. XIII D, § 3, subd. (a), par. (2).
[102] Cal. Const., art. XIII C, § 2, subd. (b), (d).
[103] Constitutional and Statutory Bases for Restrictions 9 Witkin, Summary 11th Tax § 134 (2019); Cal. Consti., art. XIII A, § 1; Cal. Consti., art. XIII A, § 4.
[104] Resolution No. 87319. Code of Ordinances for Oakland, CA, Oakland City Council, 2018, https://library.municode.com/CA/oakland/ordinances/code_of_ordinances?nodeId=930534
[105] For example, Measure B, passed by voters of Los Angeles County in 2002 to pay for emergency medical services, levies a tax of roughly $0.03 per square foot of structural improvements. *See* Revised Agenda," County of Los Angeles, Measure B Advisory Board, January 10, 2018. http://file.lacounty.gov/SDSInter/dhs/1036113_MBAB011018.pdf
[106] For example, in 2004, the City of Huntington Park passed a parcel tax with 17 different rates for different property uses. Different rates applied to categories such as: vacant properties, single-family homes, residential buildings with three units, residential buildings with four units, residential buildings with five or more units, and so on. *See* Sonstelie, Jon. "Parcel Taxes as a Local Revenue Source in California." *Public Policy Institute of California*, Apr. 2015, https://www.ppic.org/content/pubs/report/R_415JSR.pdf.
[107] Ibid.

Other variables may also be considered. For example, a recent vacancy tax proposal in San Francisco would tax landlords owning residential properties with three or more units that are vacant for six consecutive months at a rate of $250 per unit each day until leased.[108] Thus, units held vacant for longer periods of time would face higher taxes.

A special parcel tax is a logical structure for a Los Angeles Vacant Homes Penalty, because parcel taxes apply to property or property ownership, allow progressive tax rates, and permit the tax revenue to be earmarked for community projects designed to alleviate the housing crisis in Los Angeles.

E. **Revenue from a Los Angeles Vacant Homes Penalty could be devoted to advancing important housing justice objectives.** As a special tax, the revenue from a Los Angeles Vacant Homes Penalty could be designated for multiple specific purposes, including projects to advance housing justice and address the harms of speculative investment and gentrification. While there is broad discretion to select these purposes, once the revenue spending plans are listed in the measure and approved by voters, the City cannot deviate from those purposes.

F. **A Los Angeles Vacant Homes Penalty may be placed on the ballot by the City Council or as a citizens' initiative.** The City Council could place a Vacant Homes Penalty measure on the ballot with a majority vote of the Council no later than 110 days before the date of the election.[109] A Vacant Homes Penalty could also be placed before voters through the citizens' initiative process,[110] which would require petitioners to collect more than 60,000 signatures within a 120-day period, with the entire process of signature and petition submission, signature verification, and examination by city officials needing to be completed at least 110 days before the targeted election date.[111]

> ***Lower threshold?*** Recent litigation has drawn into question the voter threshold required to pass a special tax measure that is submitted to the ballot by citizen initiative. In a 2017 case, *California Cannabis Coalition v. City of Upland* ("*California Cannabis*"), the California Supreme Court drew a distinction between city council and citizens' initiative tax measures.[112] The court held that the California Constitution's requirement that general tax proposals placed on the ballot by "local government" can only be voted on during

[108] Mojadad, Ida. "Tax on Vacant Properties Emerges for November Ballot." 23 Jan. 2019, https://www.sfweekly.com/news/tax-on-vacant-properties-emerges-for-november-ballot/.
[109] Election Code of the City of Los Angeles, Chapter VI, § 601(b), p. 39. *Los Angeles City Clerk*, https://clerk.lacity.org/sites/g/files/wph606/f/Election%20Code.pdf.
[110] Election Code of the City of Los Angeles, Chapter VI, § 600, p. 39. Los Angeles City Clerk, https://clerk.lacity.org/sites/g/files/wph606/f/Election%20Code.pdf.
[111] Los Angeles City Charter, Vol. I, Article IV, § 452 (b), *American Legal Publishing Corp.*, http://library.amlegal.com/nxt/gateway.dll/California/laac/administrativecode?f=templates$fn=default.htm$3.0$vid=amlegal:losangeles_ca_mc.
[112] *California Cannabis Coal. v. City of Upland*, 199 Cal. Rptr. 3d 805, 814 (Ct. App.), *review granted and opinion superseded*, 372 P.3d 903 (Cal. 2016), *and aff'd,* 3 Cal. 5th 924, 401 P.3d 49 (2017), *as modified on denial of reh'g* (Nov. 1, 2017).

general elections does not apply to citizen initiated measures.[113] Some commentators have argued that the *California Cannabis* ruling could open the door for a broader interpretation of citizen initiated measures that would relieve them of other legal restrictions—creating the possibility that citizen initiated special taxes could be passed by only a simple majority.[114] A clear answer isn't likely in the near future as the issue is under consideration by numerous California courts.[115] In the meantime, securing two-thirds voter approval is still an effective method for enacting a Los Angeles Vacant Homes Penalty.

VIII. Recommended Policy Tools to Address Speculative Vacancy in Los Angeles

The magnitude of Los Angeles' affordable housing and houselessness crisis requires a significant policy response. This should include multiple, coordinated policies to penalize speculative vacancy and mitigate the intensive housing instability in low-income communities caused by speculative and unaccountable investment. This comprehensive approach should include a combination of: (A) a Vacant Homes Penalty; and (B) other complementary anti-vacancy policy tools.

These policies should be grounded in best practices, legally sound, and be directly responsive to the needs and priorities of the communities most impacted by Los Angeles' unprecedented crisis. To that end, we offer the following recommendations and considerations, which are informed by the preceding analysis and shaped by the perspectives, priorities, and expertise of low-income LA residents and organizations who are living and working at the front lines of the housing justice movement.

A. Adopt a comprehensive Vacant Homes Penalty measure in the City of Los Angeles.

If structured properly, a Vacant Homes Penalty will help deter speculative vacancy, mitigate the harms of speculative real estate investment, and deliver necessary financial resources for community-centered programs to address evictions, housing instability, and houselessness in low-income Los Angeles communities. To achieve these goals, the Los Angeles Vacant Homes Penalty measure should be crafted with the following policy recommendations in mind:

1. ***Apply the penalty citywide.***

   Granting exemptions for certain neighborhoods would be unfair and unworkable, and might simply concentrate speculation in exempt areas. Accordingly, citywide application is a common feature of a vacancy tax. Oakland's vacancy tax is citywide, while British Columbia's

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[113] *California Cannabis Coalition v. City of Upland,* 199 Cal. Rptr. 3d at 814.

[114] *Memorandum Re: Voting Threshold for Initiative Tax Measures Following* California Cannabis Coalition v. City of Upland. San Francisco Office of the City Attorney, 17 Oct. 2017, https://www.sfcityattorney.org/wp-content/uploads/2015/07/CA-Cannabis-Coalition-Memo.pdf.

[115] Borenstein, Daniel. "Borenstein: California needs clarity on vote requirement for taxes." *East Bay Times*, 17 Oct. 2019, https://www.eastbaytimes.com/2019/10/17/borenstein-california-needs-clarity-on-vote-requirement-for-taxes/.

government designed its Speculation and Vacancy Tax with a broad geographic scope to prevent pushing speculators into neighboring real estate markets.

2. ***Apply the penalty to rental dwelling unit vacancies, ownership dwelling unit vacancies, and commercial vacancies.***

   As described in this report, problematic vacancies are prevalent in both rental and condominium buildings, necessitating a penalty that covers both types of housing tenure. In addition, a penalty on vacant commercial properties will promote productive community-serving uses, mitigate the harmful impacts of visible commercial vacancy on small businesses, and ensure a holistic penalty structure that generates funds to meet the housing crisis. Other cities have pursued vacancy tax policies with broader coverage. For example, Oakland's Vacant Property Tax applies to both residential and commercial property. A recent proposal in San Francisco would have imposed a fee on vacant storefronts, as well as an ongoing fee on residential properties.

3. ***Apply the penalty to currently undeveloped vacant properties that are zoned to allow housing and have had rental housing on site in the previous ten years.***

   Owners of long-term undeveloped vacant property may face challenges in converting to residential use, and some undeveloped vacant properties may face physical or legal limitations that prevent development on the property. It would be reasonable, therefore, to exclude such undeveloped properties from a penalty. However, intentionally holding properties undeveloped after evictions and/or demolition of rental (often rent stabilized) units is a harmful product of real estate speculation, and such practices should be covered by the penalty.

4. ***Apply the penalty to dwelling units that are unoccupied by residents for more than 90 days out of the year.***

   A Vacant Homes Penalty should be imposed on an annual basis, with the penalty applying to any unit that was unoccupied for more than 90 days during the previous year and does not qualify for an exemption.

5. ***Create a rebuttable presumption that units are vacant and subject to the penalty using DWP metering information and other best available data.***

   The Vacant Homes Penalty should establish a rebuttable presumption of vacancy using metering information from the Department of Water and Power, evidence of homeownership exemption, and other available data. If metering information shows that water and power is not connected or that certain utility thresholds are not met for more than 90 days, or if an ownership unit has not been claimed under the homeownership exemption, then the unit should be presumed to be vacant and subject to the penalty, with the property owner having the burden to prove otherwise.

6. ***Create a progressive structure that penalizes speculative vacancies, and maximizes revenue for community-centered housing justice programs and enforcement.***

As described in Section III of this report, there are several ways that a Vacant Homes Penalty could be progressively structured, including: (a) as a flat fee per vacant unit regardless of size; or (b) as a fee per square foot of vacant unit. Fee amounts could escalate based on certain criteria like housing tenure, duration of vacancy, or overall building vacancy rate, although the fee amounts may not be based on property value.

7. ***Include reasonable exemptions.***

Exemptions to the penalty should be granted to certain units or property, such as:

- Units or property owned by low-income individuals (using metrics adjusted for Los Angeles wages);
- Units or property owned by any government or nonprofit organization;
- Property that carries physical or legal limitations that prevent the owner from building on the property;
- Units that are covered by an active permit for renovations;
- Units that are in the process of ownership transfer;
- Units that are actively being marketed in good faith for lease or sale;
- Units where the owner or lessee is recently deceased;
- Units where the owner or lessee is staying in a hospital or supportive care facility;
- Units where the owner or lessee is serving in the military or a service program;
- Units where the owner or lessee is taking an extended vacation but has demonstrated an intent to return to their residence.

All of the above exemptions are found in other cities' vacancy tax programs, and together, will promote fair application of the Los Angeles Vacant Homes Penalty.

8. ***Allocate the penalty revenue exclusively to community-serving uses that advance housing justice*.**

Revenue from the Los Angeles Vacant Homes Penalty should be deposited in a special fund dedicated exclusively to: (a) constructing and improving nonprofit deeply affordable housing, and social housing; (b) providing services to the unhoused; and (c) preventing displacement and eviction, particularly for low-income tenants, students, the disabled, and the elderly. Penalty revenue should not be available to any program that involves "blight elimination" or the criminalization of low-income and houseless Angelenos.

9. ***Include registry, audit, and enforcement procedures; and ensure appropriate data management practices.***

Property owners, even if exempt from the Vacant Homes Penalty, should be required to register vacancy status with the City. For example, Vancouver's policy requires residential property owners to annually declare their property's vacancy status to the city government, whether or not they think the tax applies to them. A City department should perform random audits to determine and penalize inaccurate reporting from property owners. In addition, the responsible agency should maintain this registry of vacant units and properties to be made available to policymakers

and the public, to burnish data access and disclosure as called for in subsequent recommendations.

10. ***Ensure comprehensive community oversight of program implementation***.

The Vacant Homes Penalty measure should also include the creation of an oversight commission that consists of community members impacted by the affordable housing and eviction crisis, including at least 50% current or former houseless residents. This commission should be empowered to review city-wide and building-level vacancy data, and receive periodic progress reports from City staff on implementation, enforcement, and the expenditure of program revenue. The Commission should also be empowered and appropriately staffed to produce and present an annual report to City Council with an assessment of the program's impact on advancing housing justice and recommendations for program improvements. Taking a similar approach, Oakland's Vacant Property Tax established a "Commission on Homelessness" that meets at least four times annually and produces a report on the status of the VPT's implementation and impact on houselessness.

B. Adopt complementary anti-vacancy policies

A number of additional policies can help augment the impact of a Vacant Homes Penalty and provide greater checks on the rampant speculation that is accelerating the affordable housing and houselessness crisis. The following complementary policies should be considered alongside a Vacant Homes Penalty to form a comprehensive City response.

1. *Municipal Disclosure*

It is in the public interest to know who is buying up Los Angeles. We recommend that the city require municipal disclosure of real ownership as part of the property registration process. "Real ownership" can be defined as the natural person or persons who reaps the rewards associated with owning a corporation. When companies are not required to disclose this information, the window for harmful activity is left wide open.

More and more, property owners are able to maintain anonymity by hiding behind ambiguous corporations, referred to as "shell corporations" or "shell LLC (Limited Liability Corporation)." A shell corporation is a corporation that offers essentially no service or products other than providing its owner with a cloak of invisibility. These companies depend on and profit off municipalities' protection of property rights and publicly-financed amenities, yet they are not required to disclose themselves to the public. In order to unveil these actors, many states worldwide have taken action to legislate a mandated ownership disclosure.

At the federal level, the Corporate Transparency Act of 2019, otherwise known as the Maloney bill, passed the US House in October of 2019 with substantial bi-partisan support. The bill would require that LLCs and corporations disclose their real owners to the Financial Crimes Enforcement Network (FinCEN), an arm of the U.S. Treasury Department, at the time of company formation. "…this bill will

also help to crack down on New York's real estate being used to park illicit money, driving up housing costs and limiting availability," said Maloney. "It seems that more than ever before, there are too many dark windows in apartments in NYC at night – but with this bill, it is my hope that this practice will be put to an end. Too many anonymous LLCs, instead of families, own NYC apartments. The Senate needs to act to pass this bill without delay."[116] New York City, the European Union, and the United Kingdom are all considering legislation requiring transparency of property ownership as well.[117, 118, 119]

Implementation of municipal disclosure would be procedurally simple. The Los Angeles County Recorder's Office could require the disclosure of real ownership with the recording of deeds.

2. *Prohibit condominium conversions and demolitions of rent stabilized units until appropriate vacancy monitoring procedures are in place*

The Ellis Act, as described in the first half of this report, certainly contributes to harmful vacancy, displacement, and houselessness. However, it does not completely prohibit the City from adopting and enforcing certain protections. In fact, the Ellis Act explicitly provides that it "is not otherwise intended to ...interfere with local governmental authority over land use, including regulation of the conversion of existing housing to condominiums"...or "preempt local ...controls that govern the demolition and redevelopment of residential property."[120] The City of Los Angeles has already elected to use this discretion, at least with respect to condominium conversions. When evaluating applications for condominium conversions, the Department of City Planning is supposed to first assess the vacancy rate in the applicable community plan area, and deny the application if the vacancy rate is five percent or less and the cumulative impact of successive conversions is significant.[121] However, as described earlier in this Report, the City is currently unable to produce an accounting of vacancy rates for a planning area. So as it stands now, the City's entire condominium conversion regulatory framework is predicated on data that the City does not have.

The City can take several immediate steps to ensure proper implementation of existing code sections and stem the tide of speculative vacancy created by evictions and demolitions. These steps include:

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116 The New York Times, "Towers of Secrecy," Feb 7, 2015. https://www.nytimes.com/news-event/shell-company-towers-of-secrecy-real-estate

117 Josh Barbanel, "Secret Manhattan Condo Purchases Are Dead, Thanks to a Suburban Squabble," *The Wall Street Journal*, October 8, 2019. https://www.wsj.com/articles/secret-manhattan-condo-purchases-are-dead-thanks-to-a-suburban-squabble-11570557635?mod=article_inline

118 *Directive of the European Parliament and of the Council of 20 May 2015*. Office Journal of the European Union, 2015, www.eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L0849&from=EN.

119 Helen Burgaff. "New Register to Require Public Disclosure of Identity of 'Ultimate Owners' of UK Properties." *International Investment*. May 2 2018. www.internationalinvestment.net/regions/uk/new-register-require-public-disclosure-identity-ultimate-owners-buyers-uk-properties/.

120 California Government Code Section 7060.7(a)-(b).

121 Los Angeles Municipal Code Section 12.95.2.F.6.

1. Create a mechanism to deny demolition permit applications for rent stabilized units when the vacancy rate in the community plan area is five percent or less, similar to existing policy for condominium conversions.
2. Establish an annual limit on the number of demolition permits and condominium conversions.
3. To ensure proper implementation of City law, prohibit any condominium conversion or demolition of rent stabilized units until such time that the City can accurately determine vacancy rate for community plan areas.

3. A Demand for Publicly Accessible Data on Vacancy

Local agencies in Los Angeles have historically used data based upon metering information from the Department of Water and Power (DWP) in their evaluation of vacancy rates within the city. This dataset is in theory more accurate than any other, as it samples every single residence in the city on a daily basis. Unfortunately, in recent years, city agencies have been unable to acquire this data from DWP, and the most recent estimates, from 2017, have been deemed too inaccurate to be used in decision making by those agencies.[122]

In response to a public records request we submitted attempting to access this data, Los Angeles Department of City Planning (DCP) provided us with their most recent Community Plan Area vacancy calculation. For this they relied on ACS 2017 data, indicating that DCP has yet to secure updated and accurate vacancy information from DWP. A report from DCP to City Council indicates that they consider ACS data the second best source for vacancy data, behind DWP data,[123] which makes it troubling that DWP has yet failed to provide metering based data to city agencies. Even when vacancy data from DWP was available, city agencies did not calculate and use vacancy information for individual buildings, another shortcoming that should be addressed.

The determination of accurate vacancy rates is a crucial issue that demands resolution. Vacancy rates are used in determining whether or not to approve condo conversions and to evaluate the impact of new developments on the housing market. This might seem insignificant, but is extremely important in the context of LA's ongoing eviction crisis, as an October 15, 2018 motion from Councilmember Mike Bonin's office makes clear.[124] The motion calls for DCP to "cease issuing Ellis Act clearances" until the vacancy rate can be determined and is above 5% in a Community Plan Area. The Ellis Act, as we have discussed, is a major driver of displacement and tool of speculation in Los Angeles. Councilmember Bonin recognizes the importance of this lack of data in multiple motions that are working through council,[125] accompanied by a Housing Committee Report calling on the Los Angeles Housing and Community Investment Department (HCIDLA) to work with DWP and other agencies to report

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[122] City of Los Angeles, Department of City Planning. Report. *Los Angeles City Council*, 21 September 2017, https://cityclerk.lacity.org/lacityclerkconnect/index.cfm?fa=ccfi.viewrecord&cfnumber=17-0480
[123] Ibid.
[124] City of Los Angeles, City Council. Motion. *Los Angeles City Council*, 15 October 2019 http://clkrep.lacity.org/onlinedocs/2019/19-1246_mot_10-15-2019.pdf
[125] City of Los Angeles, City Council. Motion. *Los Angeles City Council*, 11 June 2019 http://clkrep.lacity.org/onlinedocs/2019/19-0623_mot_06-11-2019.pdf

accurately on vacancy in the city.[126] While we applaud the Councilmember and his colleagues for attempting to correct this issue, better data collection is not enough, and overall vacancy rates are not the only problem that needs to be addressed. The data collected must be made publicly accessible to all interested residents, and published online.

4. Real Estate Transfer Tax

Real estate transfer taxes are a promising tool to reduce speculation on property and to raise funds to be used at the local level. California imposes a tax of $1.10 per $1,000 of value (0.11%) of the purchase price on all property sales.[127] Cities and Counties are free to impose higher rates. Los Angeles, for example, imposes a tax of an additional $4.50 per $1,000 of net value (0.45%) on property sales.[128]

However, this tax could be made even more progressive. San Francisco, Oakland, and Berkeley have all imposed higher rates for more expensive transactions. In 2016, San Francisco voters approved Proposition W, which increased the city's real estate transfer tax to 2.25% for properties sold for between $5 million and $10 million; 2.75% for properties sold for between $10 million and $25 million; and 3% for properties sold for above $25 million.[129] The city's Office of Economic Analysis estimated the measure would raise an average of $44 million in additional revenues each year.[130] In November, 2018, voters in Oakland overwhelmingly approved Measure X to implement a tiered transfer tax.[131] The new tiered transfer tax increased the previous flat real estate transfer tax of 1.5 percent to 1.75 percent for transfers between $2 million and $5 million, and 2.5 percent on real estate value over $5 million.[132] In the same election, seventy-two percent of voters in Berkeley approved Measure P, which increased the City's existing 1.5 percent flat transfer tax to 2.5 percent for sales over $1.5 million.[133] The measure also required the city to create a "Homeless Services Panel of Experts" to advise Berkley's City Council regarding how and to what extent the City should establish and/or fund programs to end or prevent homelessness in Berkeley.[134]

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[126] City of Los Angeles,City Council Housing Committee. Report. *Los Angeles City Council*, 28 August 2019, http://clkrep.lacity.org/onlinedocs/2019/19-0623_rpt_hsg_8-28-19.pdf

[127] Tannenbaum, Larry, and Pfaff, Stephanie. "Watch out for California transfer taxes in transactions involving real estate holdings." DLA Piper. 28 April 2014 https://www.dlapiper.com/en/us/insights/publications/2014/04/watch-out/

[128] ibid.

[129] "San Francisco, California, Real Estate Transfer Tax Increase, Proposition W." Ballotpedia. November 2016. https://ballotpedia.org/San_Francisco,_California,_Real_Estate_Transfer_Tax_Increase,_Proposition_W_(November_2016)

[130] "Transfer Tax Increase on Properties Over $5 Million in Value: Economic Impact Report." Office of Economic Analysis. 29 June 2016. http://sfcontroller.org/sites/default/files/160604_economic_impact_final.corrected.pdf

[131] "Oakland, California, Measure X, Graduated Real Estate Transfer Tax (November 2018)" Ballotpedia. https://ballotpedia.org/Oakland,_California,_Measure_X,_Graduated_Real_Estate_Transfer_Tax_(November_2018)

[132] "City of Oakland Measure X." City of Oakland. https://www.acvote.org/acvote-assets/02_election_information/PDFs/20181106/en/Measures/20%20-%20Measure%20X%20-%20City%20of%20Oakland.pdf PAGE 1

[133] "What you need to know about the new property taxes and laws going into effect in the East Bay." Bay Area Living. https://berkhills.com/bay-area-living/what-you-need-to-know-about-the-new-property-taxes-andlaws-going-into-effect-in-the-east-bay

[134] "Berkeley, California, Measure P, Real Property Transfer Tax Increase (November 2018)." Ballotpedia. https://ballotpedia.org/Berkeley,_California,_Measure_P,_Real_Property_Transfer_Tax_Increase_(November_2018)

Los Angeles should consider a real estate transfer tax that imposes higher rates on more valuable properties, similar to those adopted in San Francisco, Oakland and Berkeley. Revenues should be directed to constructing and improving nonprofit deeply affordable housing; providing services to the unhoused; and preventing displacement and eviction, particularly for low-income tenants, students, the disabled, and the elderly.

5. *Flipping Tax*

A variation of a real estate transfer tax that more precisely targets rent-seeking speculation is a flipping tax. This would target investors who sell properties shortly after buying them, quickly cashing in on rising property values. Both the Bernie Sanders campaign[135] and the Homes Guarantee platform released by People's Action[136] have proposed a tax of 25% of the purchase value on non-owner-occupied properties that are sold within 5 years of the last purchase. A flipping penalty similar to those described above should be built into an increased real estate transfer tax in Los Angeles.

6. *Out-of-State Transaction Tax*

The City should also explore the possibility of implementing a tax that targets investors living outside California. In Los Angeles, speculators (often tied to Wall Street financial institutions or global investment pools) tend to have deep pockets and no stake in the communities where they are buying land. Targeting these individuals and corporate entities that seek to profit off of our housing crisis could raise much-needed revenues for truly affordable housing and other services needed by unhoused and rent-burdened Angelenos.

British Columbia has incorporated a tax on foreign investors into its Speculation and Vacancy Tax (SVT).[137] The SVT imposes a vacancy tax of 0.5% on the assessed value of the residential property for British Columbians and other Canadian citizens or permanent residents, but 2% for foreign owners and "satellite families"[138]—that is, individuals or spousal units who do not report the majority of their income on a Canadian tax return.[139] BC's government adopted the tax in response to nonresident real estate speculation. A similar provision in the Los Angeles Vacant Homes Penalty could reduce housing speculation and also raise significant revenue.

7. *Explore other mechanisms for utilizing perpetually vacant properties to house the unhoused immediately*

The city should explore using any available powers to put to use perpetually vacant properties in housing the unhoused, including but not limited to; the seizure of tax delinquent vacant properties for use as social

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[135] "Housing for All." Bernie Sanders. https://berniesanders.com/issues/housing-all/
[136] People's Action. (2019). A National Homes Guarantee. https://mk0homesguarant73iku.kinstacdn.com/wp-content/uploads/Homes-Guarantee-_-Briefing-Book.pdf
[137] "Tax Rates for Speculation and Vacancy Tax." British Columbia. https://www2.gov.bc.ca/gov/content/taxes/property-taxes/speculation-and-vacancy-tax/tax-rates
[138] ibid.
[139] Ibid.

or community controlled housing, the use of eminent domain to municipalize the property of the worst offenders who leave units vacant for unconscionable lengths of time, and any other mechanism that might bring these properties under the control of community or local agencies for the purposes of housing the unhoused.